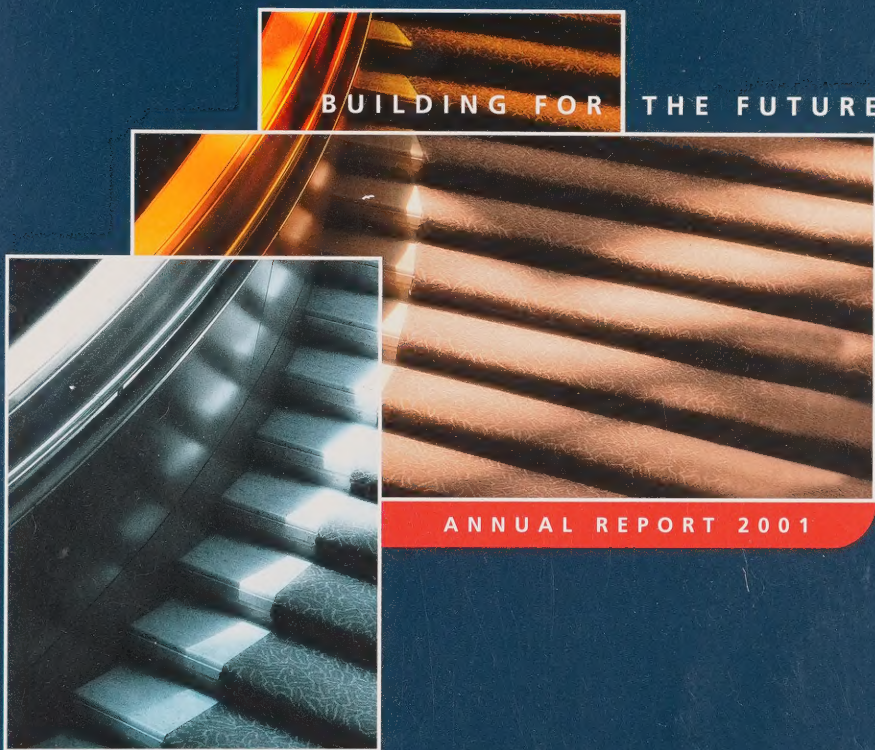


BUILDING FOR THE FUTURE

ANNUAL REPORT 2001

EDC
Export Development Canada
Exportation et développement Canada

Canada

Overview: Building for the Future

For more than five decades, EDC has helped facilitate steady growth in Canadian exports. We offer a full range of financial products and services, plus the flexibility in delivering them, to help exporters and investors capitalize on opportunities around the globe.

EDC builds for the future by making continuous improvements in three critical areas: customer service; employee training and development; and alignment with our stakeholders. In 2001, we achieved significant progress in all three areas, delivering tangible benefits to our customers and to Canada.

The following statistics represent a few highlights of EDC's performance in 2001:

- $44 billion in exports and international investments using EDC solutions
- 6,355 customers served
- 5,720 small- and medium-sized enterprises served
- 2,593 emerging exporters served
- $58 million net income
- $23.8 billion total assets
- $0 Parliamentary appropriation
- $1.3 million directed towards Education and Youth Employment Strategy

Vision

EDC will be the recognized leader in providing ground-breaking commercial financial solutions to companies of all sizes, helping them succeed in the global marketplace and create enduring prosperity for Canada.

Values

People

We are the heart and soul of EDC. Our diversity enriches us all. Each one of us deserves respect and makes a difference. Working together is fundamental to our success.

Excellence

We are responsible for excellence in everything we do. We believe in personal accountability and the power of challenging the status quo.

Passion

Initiative and enthusiasm characterize the way we work. We take satisfaction in the quality of what we do. We are here because we want to be here.

Learning

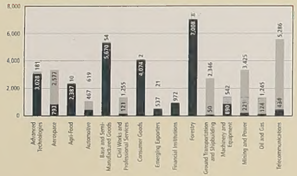
We believe that learning is an invigorating and continuous process. We seek out and embrace personal and professional development, and the invaluable lessons that come from experience.

CONTENTS

2001 CORPORATE ACCOUNT HIGHLIGHTS

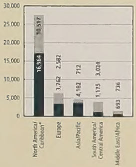
Business Volume by Industry Sector

($ in millions)



Business Volume by Geographic Market

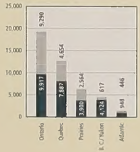
($ in millions)



* *Includes Mexico*

Business Volume by Canadian Region

($ in millions)

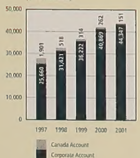


Medium- and long-term financial services
Short-term financial services

FIVE-YEAR REVIEW

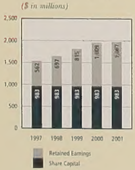
Business Volume

($ in millions)



Shareholder's Equity

($ in millions)



Customers Served

A key focus for EDC is Corporate Social Responsibility (CSR), which encompasses our community involvement at both local and global levels, and covers a broad spectrum of initiatives. Our CSR cause of choice is Education and Youth Employment (EYE) – in 2001, EDC funded scholarships for 21 post-secondary students, and work terms for 60 young adults (including those pictured left).

MILESTONES 2001

Other Community Milestones

- EDC supported the Junior Team Canada program, which enabled 1,600 students to attend training centres across Canada; sent 60 delegates on Economic Missions to Germany, Austria, Japan, South Korea and Taiwan; and sent two delegates on the Prime Minister's Trade Mission to China.
- An independent Advisory Council was established to oversee EDC's CSR policies.
- EDC's United Way/Healthpartners Campaign raised over $125,000.
- 76 per cent of EDC employees participated in the Commuter Challenge, using environmentally friendly alternatives to get to work. This response rate earned us first place in our category (government company with 100-1,000 employees).
- EDC's Risk Runners team participated in the Labatt 24-hour relay, raising more than $6,000 in pledges for local charities.
- EDC's Parenting Committee organized "Take Your Kids to Work" day for 26 Grade 9 students.

Corporate Milestones

- The new EDC Brand was introduced, to strengthen corporate brand recognition across Canada and around the world.
- EDC served a record 6,355 customers in 2001, including 5,720 small- and medium-sized enterprises.
- Our Emerging Exporters Team served a record 743 new customers.
- EDC's 81.5 per cent Customer Satisfaction Index set a new record, up significantly from 79.6 per cent in 2000.
- EDC established an eBusiness Team, responsible for creating new products and moving many existing products online.
- EDC began migration to a storage area network (SAN) system that delivers secure and uninterrupted database access.
- Amendments were made to the *Export Development Act*, bringing to an end a comprehensive three-year mandate review that strongly endorsed EDC's mandate, role, strategic direction and its commercial principles.
- EDC's Environmental Review Directive became law under the parliamentary amendments.
- EDC's employee satisfaction survey – completed by 90 per cent of employees – ranked EDC higher than comparable organizations in almost all categories.
- EDC was recognized by Maclean's magazine as one of Canada's top 100 employers.

Building for the future

It is with a great deal of pride and satisfaction that I present this 2001 Annual Report on the performance and corporate health of Export Development Canada. Notwithstanding unprecedented uncertainty and volatility generated by many unanticipated events, EDC has once again achieved record business results while balancing the need to develop and implement diverse and complex Corporate Social Responsibility (CSR) initiatives.

From my perspective, the message I most want to leave with our shareholder, customers and investors, indeed to all Canadians and other interested parties, is that EDC is going from strength to strength, continuing its valuable role as an instrument to promote continued prosperity for Canada.

With a rapidly expanding customer base, growing interest from international partners and investors and a strong internal culture, EDC is well positioned to serve the evolving needs of Canada's export community. This was underscored in 2001 with the successful conclusion of a comprehensive mandate review of EDC.

The mandate review reaffirmed EDC's balance of public and private sector sensibilities. We take a prudent approach to risk management while embracing a range of progressive environmental and ethical initiatives. The review recognized the crucial role EDC plays in facilitating Canadian exports and foreign investment, and in enhancing Canada's reputation abroad. We will continue to lead with this balanced approach as we improve our ability to serve the needs of Canada's export community.

At EDC, building for the future means investing in our most valuable resource – our people – so that they may develop creative ways to fulfil our mandate. Building for the future also means expanding our capacity to serve customers and developing products that meet their needs.

Increased capacity involves much more than improved products and services – it also involves becoming ever more relevant and valuable to customers, employees and stakeholders. Enhancing our CSR initiatives, for instance, helps position Canada as a world leader in responsible and ethical trade practices. This reflects well on Canada's exporters, often providing them with a strong competitive advantage. CSR also helps build confidence in our mandate among a broad community of stakeholders including the Canadian public, the media and advocacy groups.

We further strengthened our CSR initiatives in 2001 by establishing an advisory council that will meet regularly to consider EDC's record on environmental, ethical and social issues. These issues are often heavily value-laden, and therefore we appreciate the council's input in establishing and executing policies that reflect Canadian attitudes and mores.

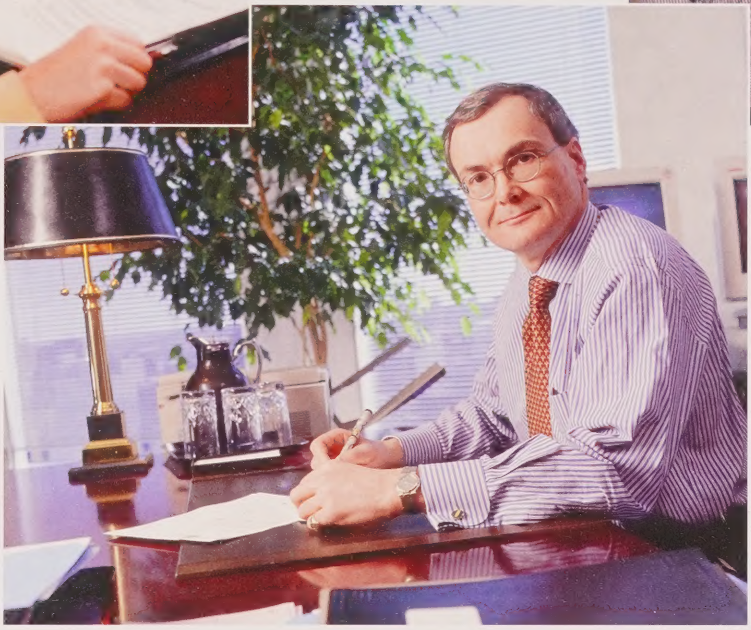
One pillar of CSR is our new disclosure policy, which will help us share news of our accomplishments with a wider audience, and build confidence in our mandate. As of October 2001, EDC regularly and systematically discloses information that does not compromise the competitiveness of our customers.

Also under the CSR umbrella is EDC's cause of choice, the Education and Youth Employment (EYE) strategy. In 2001, we

Susanne Laperle
Senior Vice-President, Human Resources

Gilles Ross
Senior Vice-President, Legal Services and Secretary

Louise Landry
Vice-President, Strategic Planning and Corporate Performance



A. Ian Gillespie
President and Chief Executive Officer

engaged 10,000 students in international business initiatives through EYE.

These are just a few examples of how we strive to balance our business goals and our CSR-oriented goals.

Facilitating trade and investment

Canadian exporting companies faced a difficult year in 2001. The collapse in the global technology sector that began in late 2000 had widespread effects throughout the year, eventually leading to a generalized global slowdown and weak commodity markets.

And then came the horror of September 11. The events of that day shocked people around the world and forced us all to re-examine our priorities. Part of the fallout included the prospect of a major retrenchment in consumer confidence, and perhaps a full-blown global recession during 2002.

It now appears that 2002 will be a much better year, for the signs of economic recovery are already emerging, especially in the United States. However, the global healing process is expected to be very gradual, and this will mean that many of the risks faced by companies selling and investing outside of Canada will remain above average. International risk management should remain a core part of any business plan.

Overall, Canadian companies experienced lower export sales in 2001 as global demand weakened. Export sales were 14 per cent lower at the end of 2001 compared to the end of 2000, and the average level of sales for 2001 was about two per cent below 2000. Despite this weakness, we carried out $44.3 billion in international trade and investment transactions on behalf of Canadian companies during 2001, an increase of

nine per cent over 2000. The tougher, high-risk international climate increased the demand for our insurance and financing services – in both developing and industrialized countries.

Our strong performance in 2001 builds on the upward trend in the amount of Canadian trade and investment facilitated by EDC in recent years. In 2001, our international business volume surpassed nine per cent of Canada's total exports of goods and services, up from seven per cent five years ago.

We served 6,355 Canadian companies in 2001, up 12 per cent from 2000. Small- and medium-sized enterprises (SMEs) constitute the bulk of Canadian companies that used our services. We worked with 5,720 SMEs in 2001, an increase of 743 new SME customers over the previous year. The total volume of SME transactions amounted to $7.7 billion in 2001, up by more than 20 per cent from 2000.

In addition to our traditional role of facilitating Canadian export sales, EDC has taken on a greater role in facilitating overseas investment by Canadian companies. Investment in foreign markets generates economic benefits both for Canada and for the host country. Such investment flows generate significant increases in two-way trade long into the future, and create new spin-off investments in the receiving country. Our Political Risk Insurance (PRI) and Project Finance programs covered $5 billion of Canadian overseas investment during 2001. Netting out renewal policies related to investments made in the past, we supported $2.3 billion in new Canadian outward foreign direct investment (FDI) last year.

Boosting Canada's presence in developing markets

A key component of our strategy has been to expand Canada's business in developing markets. We facilitated $11 billion in transactions in developing countries in 2001, a four per cent increase over 2000. These transactions accounted for nearly 25 per cent of EDC's total business volumes. This is a very significant contribution to Canada's success in these markets, considering that only about eight per cent of Canada's total export sales were in emerging markets in the past year. The number of Canadian companies using our services in developing coun-

Over the last five years, EDC's business volumes and retained earnings have grown steadily, while paid-in share capital has remained constant.*

* For figures, see Five-Year Review charts on page ii of this Report.

tries rose to 3,705 during 2001, up 7.5 per cent from 2000 and 50 per cent higher than five years ago.

Most of our PRI and project finance business takes place in less developed countries – programs that facilitate Canadian overseas investment. For emerging markets, these business lines grew by 20 per cent in 2001 and accounted for 87 per cent of all of our PRI and Project Finance transactions. Excluding PRI renewals, we facilitated approximately $1.6 billion in new Canadian FDI to the developing world in 2001, a slight increase from the previous year. However, this steady performance occurred even as Canadian overseas investments in developing countries declined by an estimated six per cent.

Contributing to Canadian prosperity

The most fundamental measure of EDC's contribution to Canadian prosperity is the Gross Domestic Product (GDP) generated by the business it facilitates. GDP represents the sum total of all income earned in Canada, and exports supply a significant share of this income.

Stepping-up the EDC Brand

EDC

Our newly defined EDC Brand represents our promise to each customer, each investor and each stakeholder of a consistent kind of experience when working with EDC. It is our promise to bring the brand attributes – the pillars of our brand – into every transaction, partnership and interaction.

Our pillars, simply stated:

- Inspirational
- Consistent
- Responsive
- Dynamic
- Facilitating
- Astute

In 2001, our ongoing process of building for the future included defining our brand. How does this fit in with our Vision and Values, restated on the inside front cover of this Annual Report? Our Values guide our employees in their work so that EDC can achieve its Vision. The EDC Brand defines the role the Corporation plays in achieving that same Vision.

Realize a World of Opportunity

We estimate the exports and investment that EDC facilitated in 2001 helped generate nearly $30 billion in Canadian GDP, an increase of 5.5 per cent over the previous year. A significant consequence of our trade and investment activity is the resulting increase in employment and incomes. The exports and cross-border investment facilitated by EDC in 2001 supported an estimated 458,000 person-years of employment, an increase of almost seven per cent over 2000, and three per cent of national employment.

Generating increased export sales enables companies to invest more in R&D activities in Canada, which confer long-term benefits to the economy. In 2001, the average R&D intensity across our business grew by 29 per cent over 2000. This increase stems from the fact that EDC's growth continued to be concentrated in technology and aerospace – sectors where much of Canada's R&D activity takes place.

Finally, there is a growing appreciation that the economic benefits of international trade accrue to both parties involved, both in Canada and in the foreign economy. Accordingly, there was a wide range of substantial foreign country benefits associated with EDC's activities in 2001. These are difficult to measure, but given the relatively high proportion of transactions that took place in developing countries, total foreign country benefits related to EDC-supported transactions are estimated to be significant.

Maintaining a balanced approach

The experience of 2001 underscores that risk and uncertainty can be important drivers of the demand for our financial services. Even though Canada's export sales fell during the year, there was a significant increase in our activities.

By carefully and conscientiously balancing growth in three areas – personnel, products and capacity – EDC is better able to respond to shifts in world markets. As economic numbers declined in 2001, we moved quickly to meet the needs of Canada's export community. By adopting a prudent approach to risk management and provisioning against potential losses, we continue to attract the interest of international partners and investors, further bolstering our ability to fulfil our mandate. Over the long term, we seek to continue this balanced growth and help build a brighter, more prosperous future for our customers, investors and stakeholders.

Let us not overlook the fact that the direct result of our balanced business approach in 2001 – indeed for more than five decades – means that we have not had to rely on government appropriations to fulfil our commercial and social commitments. We all take a great deal of pride in this accomplishment.

However, the people of EDC are my greatest source of pride. Their dedication and achievements continue to successfully raise the bar ever higher – as you will see from the results published in this Report. Our consistently strong performance is supported and facilitated by the dedicated men and women on our Board of Directors. I would like to thank Patrick Lavelle for his contribution to EDC's success during his term as Chairman, and I offer a warm welcome to our new Chairman, Mr. Paul Gobeil.

A. Ian Gillespie
President and Chief Executive Officer

Paul Gobeil
Chairman of the Board of Directors

It gives me great pleasure to begin my term as Chairman of the Board of Export Development Canada – particularly now, when the Corporation is clearly positioned to build on its successes. It is serving more customers than ever before. It is implementing bold new practices in disclosure and environmental review. And its world-class risk management practices are undergoing rapid evolution.

The challenge before EDC, of course, is to build on this momentum and achieve new heights. Clearly, the Corporation must continue to focus on its mandate: supporting Canada's export and foreign investment communities. At EDC, success is measured in part by the number of companies served, particularly emerging exporters. It must also take into account earnings, which enable the Corporation to provision for risk.

EDC strives to establish lasting relationships with its customers and investors by going beyond its core business of providing trade finance and risk management services. Every day, EDC demonstrates its commitment to partnership with its customers, helping them avoid losses by providing current market and buyer information, and minimizing losses through timely payment of insurance claims.

EDC is unique in that it embraces private- and public-sector principles. It supports entrepreneurs as they sell goods and services abroad. It facilitates economic development that is sustainable and responsible. It does not actively seek to enlarge profit margins, but rather works to maximize value – to its customers, to its stakeholders, to Canada.

In 2001, the Government of Canada reaffirmed EDC's legislation after a comprehensive three-year mandate review. It is now incumbent upon the Corporation to continue making progress in terms of public policy best practices. Its customers, investors and stakeholders must believe in the business value of environmentally and ethically sound practices. Its Corporate Social Responsibility initiatives are the expression of its leadership in this area. The Corporation will continue to demonstrate how to successfully balance economic, environmental and ethical interests.

EDC responded admirably to the economic downturn experienced last year. When so many companies chose to cut costs, it redoubled its efforts and served more customers in more ways than ever before. It accomplished this by focusing on the core business: assessing and managing risk.

EDC is positioned to achieve even greater accomplishments, with the support of the Board of Directors. As the economy recovers, we must respond with initiatives that improve EDC's ability to meet the needs of Canada's export community. We must help EDC's customers succeed in increasingly competitive markets. We must maintain a balanced approach, and engage new stakeholders. I am confident that we will succeed, backed by the collective experience of the Board of Directors and the proficient employees of this Crown corporation.

Paul Gobeil
Chairman of the Board of Directors

Strategic Objectives 2001

EDC in a Leadership Role

	Results
Expand on EDC's Corporate Social Responsibility (CSR) practices.	
▸ Continue to play a leading role with respect to environmental review practices, including strengthening our own Environmental Review Framework (ERF), and increasing support to environmental exporters.	▸ After extensive public consultations with various stakeholders, an Environmental Review Directive (ERD) was implemented in December 2001 replacing the existing ERF. Key activities in support of environmental exporters consisted of signing a Memorandum of Understanding with the Canadian Environmental Industries Association (CEIA), industry-related sponsorships and a call program to better understand the needs of these exporters.
▸ Continue implementation of the Education and Youth Employment (EYE) strategy and develop performance measures to test effectiveness.	▸ The EYE program was expanded to include scholarships at the graduate level, with a total of 21 scholarships and 60 work terms provided. To measure effectiveness, a survey was developed and administered to establish the level and sources of awareness of EDC among our student target group. The baseline awareness was 20 per cent.
▸ Implement an enhanced disclosure policy and hold regular consultations with stakeholders.	▸ Following extensive consultations with interested stakeholders, the new disclosure policy was launched October 1, 2001 with most of its content taking effect on that date. The section dealing with the advanced disclosure of environmental information took effect in December 2001.
▸ Create an Advisory Council to advise management on best-in-class practices.	▸ The CSR Advisory Council was formed, with the first meeting taking place in November 2001.
Evolve EDC's role in a commercial marketplace.	
▸ Seek FAA reclassification.	▸ The reclassification of EDC under the FAA is not being pursued at this time.
▸ Increase visibility through marketing and communications efforts.	▸ During the year, EDC introduced new television and print ads, an updated web site to improve navigation, and more integrated materials based on the new corporate identity.
▸ Build on the new corporate look and feel.	▸ In late December 2001, EDC launched its new name, which will be the subject of various promotional initiatives in early 2002.

Strategic Objectives 2002

Expand on EDC's reputation for Corporate Social Responsibility

Respond to the findings of the Legislative Review.

- Strengthen EDC's Environmental Review Procedures.
- Be mindful of Canadian international commitments.
- Implement the disclosure policy.
- Strengthen communications between EDC and Department of Foreign Affairs and International Trade (DFAIT) with respect to human rights in countries where EDC conducts business.
- Continue stakeholder engagement.
- Build awareness of EDC's new name and logo.

* Targets for 2001 were based on the 2001-2005 Corporate Plan, while those for 2002 are based on the 2002-2006 Corporate Plan. Business and financial targets for 2002 were established shortly after the events of September 11 when it was nearly impossible to predict the economic conditions under which EDC would operate in 2002. Since then, most internal forecasts have been revised upwards to reflect a more positive view of what may transpire.

Capture Opportunities for Canadian Companies

	Results
To serve more customers, EDC must identify new lines of business while nurturing its existing customer base.	
▸ Increase the number of customers served to 6,250.	▸ A total of 6,355 customers were served, an increase of 12 per cent over 2000. Of these customers, 5,720 were SMEs, a 13 per cent growth over 2000. For the second year in a row, a record number of new emerging exporters were served: 743.
▸ Increase the number of SMEs served to 5,500.	
▸ Target the export-ready market, cultural and environmental exporters and women entrepreneurs.	▸ A marketing plan for the export-ready market was developed, a comprehensive program targeting environmental exporters was executed and EDC increased its profile among women exporters with many activities.
▸ Achieve a Customer Satisfaction Index (CSI) rating of 80.0.	▸ EDC is particularly proud of its record level of customer satisfaction of 81.5 per cent, up from 79.6 per cent last year.
▸ Increase partnerships and alliances to reach a wider base of customers.	▸ Continued to build our network of partners and alliances by entering into over 16 relationships in 2001.
▸ Introduce e-business initiatives.	▸ A multitude of e-business initiatives were introduced, including three new products: on-line Economic Reports, EXPORT *Protect* and EXPORT *Check*. Enhancements were made to EDC's customer site (EDC Direct), and the web site was completely redesigned.
Provide an increasing level of support to Canadian companies to help them compete internationally.	
▸ Build the volume of business supported by EDC to $44 billion, excluding domestic insurance. This represents an 11 percent increase.	▸ Despite the constrained economic environment, EDC supported $44.35 billion in volume (excluding domestic), of which $10.99 billion was business in developing countries. This represents a growth of 9 per cent versus 2000 volume and 4 per cent for volume in developing countries.
▸ Increase the volume of business in developing countries to $12 billion.	
Develop partnerships to strengthen Canadian capacity in the private sector	
▸ Cultivate relationships with brokers.	▸ Both a broker and bank strategy were developed to strengthen EDC's relationships with these two important service providers. We are actively engaged in exploring new ways of working with Canada's banking community to develop innovative working capital solutions for Canadian exporters. Several initiatives are underway and commitments are in place which should unfold in 2002.
▸ Create financing opportunities with Canadian financial institutions.	
▸ Build a bank relationship network.	

Strategic Objectives 2002

Capture Opportunities for Canadian Companies

Enhance EDC's products and service delivery to serve more Canadian companies operating internationally.

- Increase the number of customers served to 6,800.
- Increase the number of SMEs served to 6,050.
- Introduce expanded e-services, in particular for SMEs.
- Enhance EDC's distribution channel strategy to reach more companies and optimize service to customers (EDC sales force; its brokers and bank partners; e-business channels).
- Achieve a Customer Satisfaction Index (CSI) rating of 80.0.

Leverage EDC's reputation for leadership and excellence and provide value-added support to Canadian companies selling or investing abroad.

- Support $40 billion or more in volume of exports and investments.
- Develop and implement an integrated country sectors strategy to build a platform for increased support to developing markets. In 2002, to support $9.5 billion or better in developing markets.
- Expand presence abroad.

Add financial and/or service capacity by expanding the network of partners.

- Implement the broker and banker strategies.

Strategic Objectives 2001

Financial Health

Manage financial risks to ensure an adequate rate of return to support future business.

- Net income of $295 million.
- Financial Sustainability Ratio (FSR) of 14.6 per cent.
- Internal Efficiency Ratio of 16.5 per cent.
- Return on Equity (ROE) of 12.6 per cent.
- Continue enhancing our Enterprise Risk Management (ERM) framework.

Reflecting an economic environment which deteriorated throughout the year and unprecedented uncertainty following the events of September 11, EDC's financial situation remained sound in 2001, although some financial targets were not attained.

- EDC achieved a net income of $58 million.
- An FSR of 14 per cent was achieved.
- The Internal Efficiency Ratio came in at 15.7 per cent.
- An ROE of 2.8 per cent was attained.
- An ERM maturity matrix was developed and an ERM risk assessment and reporting process was implemented.

Strategic Objectives 2002

Financial Health

Carefully manage financial risks to ensure that EDC remains financially sound, to support future business.

- Net loss of $159 million.
- FSR of 12.3 per cent.
- Internal Efficiency Ratio of 20 per cent.
- ROE of -9.2 per cent.

Internal Readiness

Strengthen internal capabilities to enable EDC to deliver capacity and opportunities.

- Maintain voluntary turnover rate at less than 10 per cent.
- Invest an average of five days per employee in training in 2001.
- Fully roll out the leadership competency framework and 360° feedback assessment tool and align training to needs.
- Review employee benefits and work/life programs.
- Target an improvement in key areas with respect to the annual employee survey.

- The turnover rate came in at 6.4 per cent, an improvement over last year's rate of 9.2 per cent.
- On average, employees received five days of training.
- All leaders received 360° feedback on their competencies and individual development plans are being built.
- A full benefits review was completed and a one-stop call centre now provides employees with direct access to benefit and pension information.
- Over 90 per cent of EDC employees participated in the 2001 fall employee survey and results show that EDC ranks above the norm for high-quality organizations in most dimensions surveyed. In particular, EDC improved in the following targeted areas: communications, leadership, compensation and benefits.

Invest in technology to serve more customers, more efficiently.

- Capitalize on high growth opportunities in e-business.
- Enhance "self-service" to short-term customers by automating key aspects of policy administration.
- Evolve our systems infrastructure.
- Begin implementation of Globex System.
- Complete phase two of MBC (MLTFS Business Centre), Integral and ACBS projects.

- Recognizing the importance of e-business, an eBusiness Team was formed in 2001. New e-products were launched and new functionalities were added to better serve our customers.
- New web features were launched including a receivable insurance centre, online registration, payment and declarations.
- Several major enhancements were completed, including improved remote internet access for employees, increased security and back-up for business continuity planning, and multiple systems upgrades.
- The policy phase of Globex was completed on schedule and work on the account phase is progressing. Overall project completion date is targeted for early 2003.
- All phases of MBC, Integral and ACBS projects were completed as scheduled.

Strategic Objectives 2002

Internal Readiness

Ensure adequate resources and efficient internal processes to deliver results.

- Maintain voluntary turnover rate at less than 10 per cent.
- Invest an average of five training days per employee.
- Broaden awareness of EDC as an employer of choice.
- Introduce flexibility in the employee benefits program.
- Target an improvement in key areas with respect to the recently completed employee survey.

Improve productivity and service with technology.

- Continue to capitalize on high growth opportunities in e-business including more "self-service" to our short-term insurance customers.
- Expand on our capabilities within our Treasury function.
- Continue automation of the Medium- & Long-Term Financial Services areas.

Initial Steps

EDC is a catalyst for export business, facilitating the success of Canadian entrepreneurs in 179 markets. It works cooperatively and proactively, reaching out to smaller businesses throughout Canada by adapting its trade finance services to better meet their needs and grow their businesses.

Engaging new exporters

By partnering with several government departments and networking with accountants, bankers, business consultants and other third party influencers, EDC continually works to identify and engage small businesses with export potential. Each year, EDC representatives attend trade shows and participate in presentations, resulting in more customers served. In 2001, EDC supported 6,355 customers, 5,720 of which were small- and medium-sized enterprises (SMEs).

EDC continues to expand its reach into Canada's small business community through the Emerging Exporters Team, which serves smaller exporters with annual export sales of up to $1 million. In 2001, it signed a record 743 new customers. A majority of the team's 2,593 customers served market their products and services in the United States before venturing further afield.

EDC services businesses with more than $1 million in annual export sales through sector specific business teams, such as aerospace, automotive, consumer goods or forestry.

Ensuring export success

EDC's Emerging Exporters Team results are made possible by continually monitoring and modifying product delivery processes, and by introducing new technology. In 2001, EDC's newly formed eBusiness Team introduced several online products which are outlined on page 16 of this Report.

Established exporters use EDC's accounts receivable insurance to manage risk, improve asset liquidity and establish a competitive advantage. Companies of all sizes rely on EDC's bonding programs to secure performance guarantees and obtain surety support.

When faced with buyer or supplier financing requirements, exporters turn to EDC for flexible and innovative solutions. From numerous lines of credit around the world, to sophisticated limited-recourse financing structures, EDC has the financial skills to support Canada's exporting community.

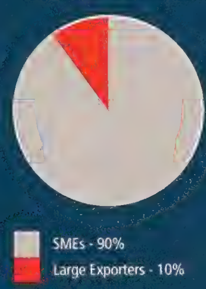
In the coming months, EDC will reinforce current and forge new strategic alliances with private- and public-sector organizations to identify and serve even more customers. EDC will also seek to support new sectors such as the emerging market for environmental products.

SME Scorecard

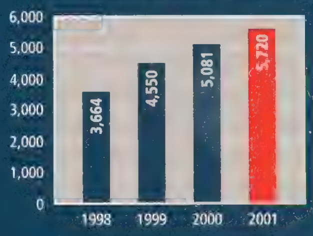
	2001	Target	% Achieved	2000
SME – Customers served count (direct and indirect)	**5,720**	5,500	113%	5,081
SME – Business volumes ($ millions)	**7,670**	7,310	105%	6,311
Emerging Exporters (EE) – No. of new customers	**743**	700	106%	675
EE – Avg. credit approval turnaround time	**2 days**			1.9 days

EDC works with thousands of Canadian businesses – one exporter at a time. Regardless of business size or industry sector, EDC has the products and services to meet the needs of every exporter. By supporting Canadian exporters, EDC facilitates steady growth in Canada's economy.

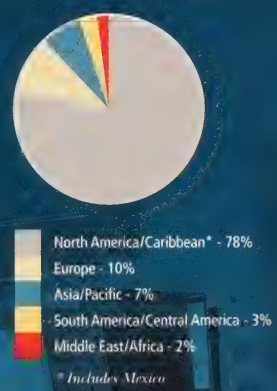
SMEs as a Percentage of EDC's Customer Base



Number of SME Customers

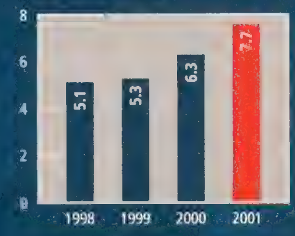


SME Volume by Geographic Market

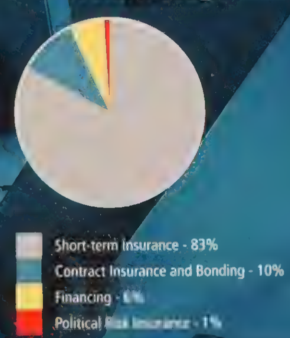


Volume Support for SMEs

($ in billions)



SME Product Usage



SME Service Attribute Ratings

(%)

EDC continually gauges its performance using a broad spectrum of measures, such as risk assessment tools, our annual Customer Satisfaction Index (CSI) and our Employee Satisfaction Index. These tools are used to monitor progress and identify areas for improvement.

EDC benchmarks its internal risk management practices against leading financial institutions. Our goal is to better define capital requirements to ensure continuing capital adequacy, thereby creating capacity for Canadian exporters and investors. In 2001, notable deliverables in terms of risk assessment tools were the alignment of EDC's risk rating methodologies to those of external rating agencies, along with the development of an Economic Capital measurement model consistent with industry practice.

Consulting with customers

EDC also methodically measures customer attitudes. In 2001, more than 1,000 clients shared their views through our annual CSI survey. A greater percentage of customers expressed extreme satisfaction with EDC than last year: 81.5 per cent compared with 79.6 per cent in 2000. This increased satisfaction was consistent among businesses of different sizes, industry sectors and EDC products. The most significant changes from a year ago were marked increases in the percentage of customers who considered EDC services extremely reliable and worthwhile. Given that the survey was conducted after September 11th, this suggests a strong perception that EDC is a secure haven in troubled times.

For customers, EDC represents one of the few constants in the ever-changing world of international trade. EDC meets expectations by continuously improving its service and its ability to manage risk. By ensuring consistent, predictable outcomes, EDC fosters stable, long-term customer relationships. This is key to ongoing success, especially in the current era of economic uncertainty.

Monitoring global markets

Economic conditions change continuously in countries around the world. Even the most assiduous corporations struggle to track and interpret recent developments. For Canada's export community, EDC is the prudent solution, with products and services that mitigate the risks of doing business abroad. EDC monitors economic developments in more than 100 countries and regularly publishes the latest market intelligence. Our up-to-date Global Export Forecast and related market information is readily available on our web site at www.edc.ca.

EDC Vice-President and Chief Economist Stephen Poloz

By monitoring economic developments around the globe, EDC is able to react swiftly to market shifts and protect the interests of our customers and stakeholders.

An innovative and responsive organization, EDC is committed to developing better ways to meet the needs of customers, stakeholders and investors. EDC's corporate culture nurtures creativity and ensures that worthwhile ideas become everyday practice.

Improving service

In 2001, EDC established an eBusiness Team in response to growing demand for online services, particularly from smaller exporters. In addition to making existing services available online, EDC created EXPORT *Protect* and EXPORT *Check*, our first fully automated trade finance products. With these products, Canadian exporters can get key credit information and insurability reports on potential buyers and accounts receivable insurance faster than ever.

We have also "webified" some of our existing products. For example, we now provide wrongful call coverage, and package some of our expert economic research into a yearly subscription called Economic Reports.

Continuing to add to our portfolio, a web tool called Export *Able?* was launched at the end of 2001, to help companies determine if they are ready to get into the export game.

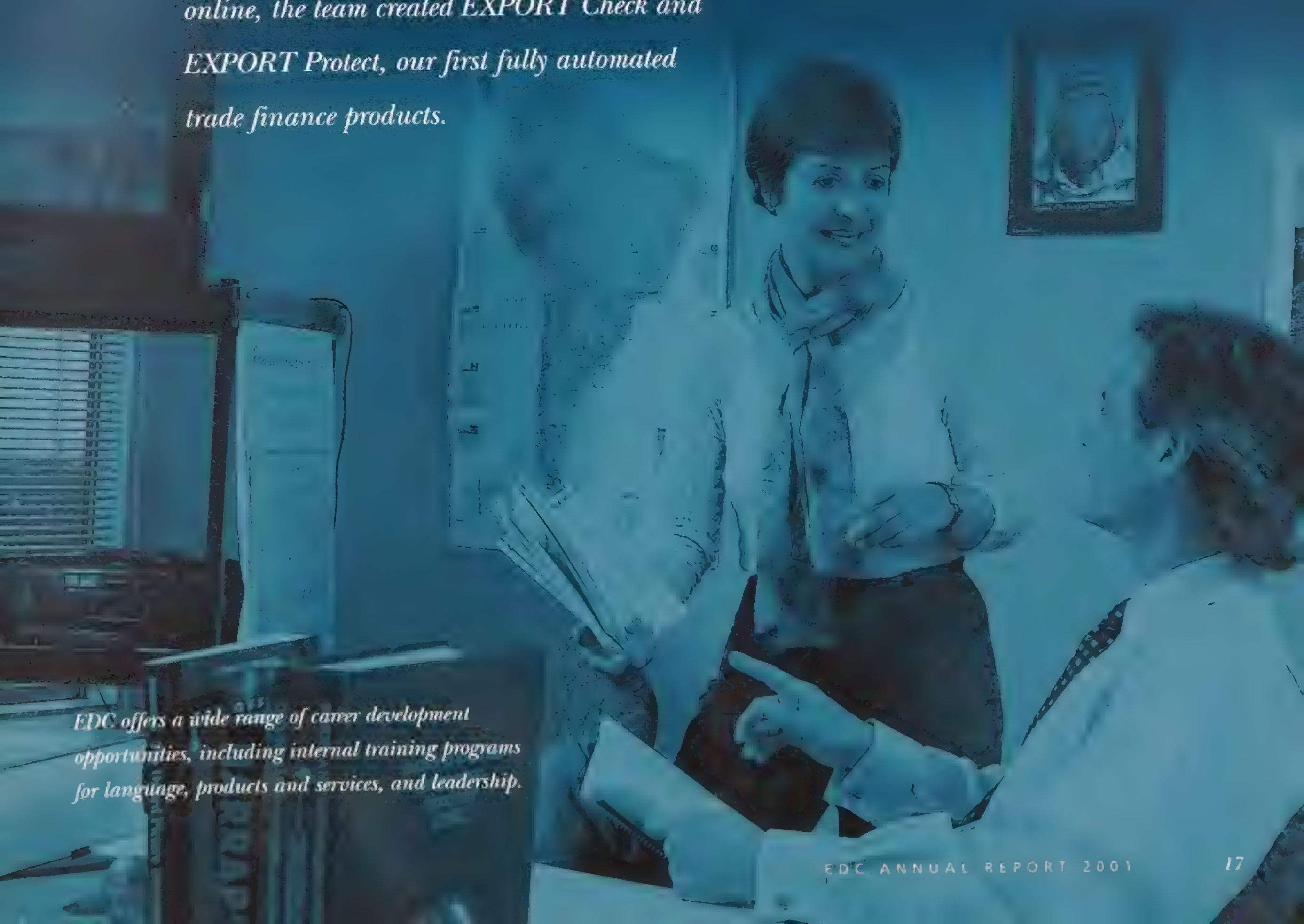
Training for success

To ensure its customer-centric culture continues to thrive, EDC systematically works to attract and retain talented, dedicated people and provides them with access to training and development. On average, an employee spends five days every year in workshops and training sessions – approximately double the average in the financial services sector.

EDC also funds programs outside the Corporation to promote training and education in the field of international trade. In 2001, through our Education and Youth Employment (EYE) strategy, EDC funded 21 scholarships and provided 60 work terms for post-secondary students. We supported the Junior Team Canada program, which enabled 1,600 students to attend training centres across Canada; sent 60 delegates on Economic Missions to Germany, Austria, Japan, South Korea and Taiwan; and sent two delegates on the Prime Minister's Trade Mission to China. In addition, EDC sponsored the Forum for International Trade Training, a non-profit organization that develops and delivers professional development programs.

Through these internal and external initiatives, EDC will continue to expand Canada's capacity to meet the changing needs of international trade for years to come.

EDC's eBusiness Team was established in 2001 to respond to growing demand for online products. As well as making existing products available online, the team created EXPORT Check and EXPORT Protect, our first fully automated trade finance products.



EDC offers a wide range of career development opportunities, including internal training programs for language, products and services, and leadership.

As a Crown corporation, EDC is uniquely positioned to combine the best public policies with the best private-sector methods. Every year, EDC facilitates thousands of transactions. Each transaction represents an opportunity to demonstrate how Canadians do business – with honesty and integrity. As business volumes have increased – surpassing $44 billion in 2001 – EDC's social, environmental and ethical initiatives have also multiplied.

Embracing CSR

EDC's Corporate Social Responsibility initiatives address issues ranging from environmental protection and disclosure practices to causes such as education and youth employment.

EDC remains in the vanguard of groups working to improve international trade standards. When a convention outlawing bribery and corruption was established by the Organization for Economic Co-operation and Development (OECD), for instance, EDC was already working with customers to ensure they could meet the new standard. Last year, EDC began to honour the OECD convention, requiring customers who sought short-term financing or insurance to sign anti-corruption agreements. In 2002, applicants for other EDC services will be required to sign similar agreements.

To ensure Canada's export community is fully informed of its rights and responsibilities, EDC has launched several communications initiatives. A series of business-integrity workshops in spring 2002 will help educate EDC customers on corruption issues, as well as responsible human rights and labour practices.

In 2001, EDC adopted a new policy on disclosure, one that requires the regular posting of key information on our corporate web site. This policy enhances accountability and protects commercially confidential information.

Protecting the Environment

EDC's due diligence and approval practices have for some time included reviewing the environmental effects of projects, before entering into project-related transactions. In 2001, EDC's environmental review requirements were formalized through amendments to the *Export Development Act*. In response, EDC's Board of Directors issued an Environmental Review Directive (ERD) to establish a methodology for reviewing projects, which includes categorization, standards and monitoring.

EDC has also strengthened what is already one of the largest teams of environmental specialists and engineers among export credit agencies with the appointment of a new chief environmental advisor, Arthur FitzGerald.

EDC held a series of cross-country round table meetings to brief customers, business associations and other stakeholders on EDC's ERD.

The new ERD reaffirms EDC's belief that the environmental and social review of projects is a fundamental aspect of good business management and is consistent with OECD guidelines. Many countries are in the early stages of developing policies to promote sustainable development, and they look to Canada for guidance. By balancing the bottom line with the common good, EDC ensures a growing presence for Canada in international trade.

The Jack Pine, Tom Thomson, National Gallery of Canada, Ottawa

EDC is uniquely positioned in the Canadian financial landscape, striking a balance between both public- and private-sector practices. This includes our approach to CSR, which also embraces cultural and community-oriented initiatives. In 2002, EDC will be the presenting sponsor of an exhibit of Canadian artist Tom Thomson's work, at the National Gallery of Canada in Ottawa.

Next steps


EDC is committed to serving 10,000 customers annually by 2004. To achieve this goal, we must continue to expand capacity. EDC must identify and reach out to new exporters, support existing customers as they strive to increase their exports, and attract new investors and stakeholders.

Increasing capacity

Despite the economic downturn, EDC continued to attract new exporters throughout 2001. During the month of December alone, we served 284 new customers and completed $7 billion in business. This activity bodes well for 2002, and upcoming initiatives, such as establishing permanent representation in Poland, will help maintain this momentum.

EDC's ability to serve customers more efficiently will also gain momentum. In 2001, our Board of Directors approved the implementation of the largest technology investment in EDC history. Globex is an innovative computer application developed in-house that will radically streamline underwriting processes. To be phased in gradually, Globex will maintain standards and provide a secure and clear audit trail. Globex will enhance the security of online transactions, accommodate the expected growth in e-business, and lead to increased customer satisfaction.

New partnerships

EDC made important progress in stakeholder relations with the establishment of its Advisory Council on Corporate Social Responsibility (CSR). The Council – comprised of seven prominent Canadians representing academia, advocacy organizations and business – held its inaugural meeting in November 2001. The Council was created to provide advice and guidance to EDC on matters related to the evolving best-in-class practices in CSR.

EDC also created a Compliance Officer position, to act as an independent body within EDC to improve transparency and accountability in areas such as public disclosure of information, environmental reviews, human rights and business ethics. As such, the Officer provides a centralized review and monitoring function, independent from EDC management.

In the coming months, EDC will establish partnerships with public- and private-sector organizations to enhance our ability to meet the needs of Canada's export community.

In addition, EDC is developing even closer ties with Canadian banks and surety companies, in the interest of supporting more exporters.

The effects of these initiatives will ripple through the Corporation, enabling EDC to build overall capacity. This broad-based approach is consistent with EDC's overarching principle of facilitating economic growth while upholding Canadian values.

Telelink, The Call Centre Inc. shares EDC's passion for using innovative technology to increase capacity. From a two-person traditional answering service, it has grown to become one of North America's largest call centres.

Pictured above (from left) are Vice-President and CEO Cindy Roma, Sydney Ryan, Director of International Sales and Marketing, and Barbara Ryan, President.

EDC's knowledge of markets, industry, and credit risk allows us to make astute, informed decisions in often uncertain business environments and to provide valuable insights to our customers and investors.

EDC is well positioned to make a significant contribution to the broadly based, gradual economic recovery expected to begin in 2002. With the support and confidence of customers, investors and the Government of Canada, EDC has the resources and policies to facilitate growth in Canadian exports.

Prospering in difficult times

Every year, more Canadian exporters recognize the value of EDC's insurance and financial services. Last year was no exception. Despite a decline in Canada's export sales, EDC's business volume was up nine per cent, and it established records for both volume of business and number of customers.

EDC operates without government funding, relying instead on the investment community for capital. As business volumes and customer counts increase, so does EDC's obligation to attract investment dollars.

Astute investors on international capital markets consider EDC a secure and profitable choice. They value EDC's prudent approach to risk management, its solid business model and predictable rates of return. They appreciate EDC's range of investments – available in multiple currencies and terms – and its commitment to personal service. EDC has established itself as a reliable and responsive supplier of debt securities, keen to meet the needs of even the most demanding investor.

The corporation's value to the Canadian business landscape was reaffirmed during EDC's mandate review. The review acknowledged EDC's commercial orientation and its role in strengthening the Canadian economy. It is a role that takes on even greater importance during economic slowdowns.

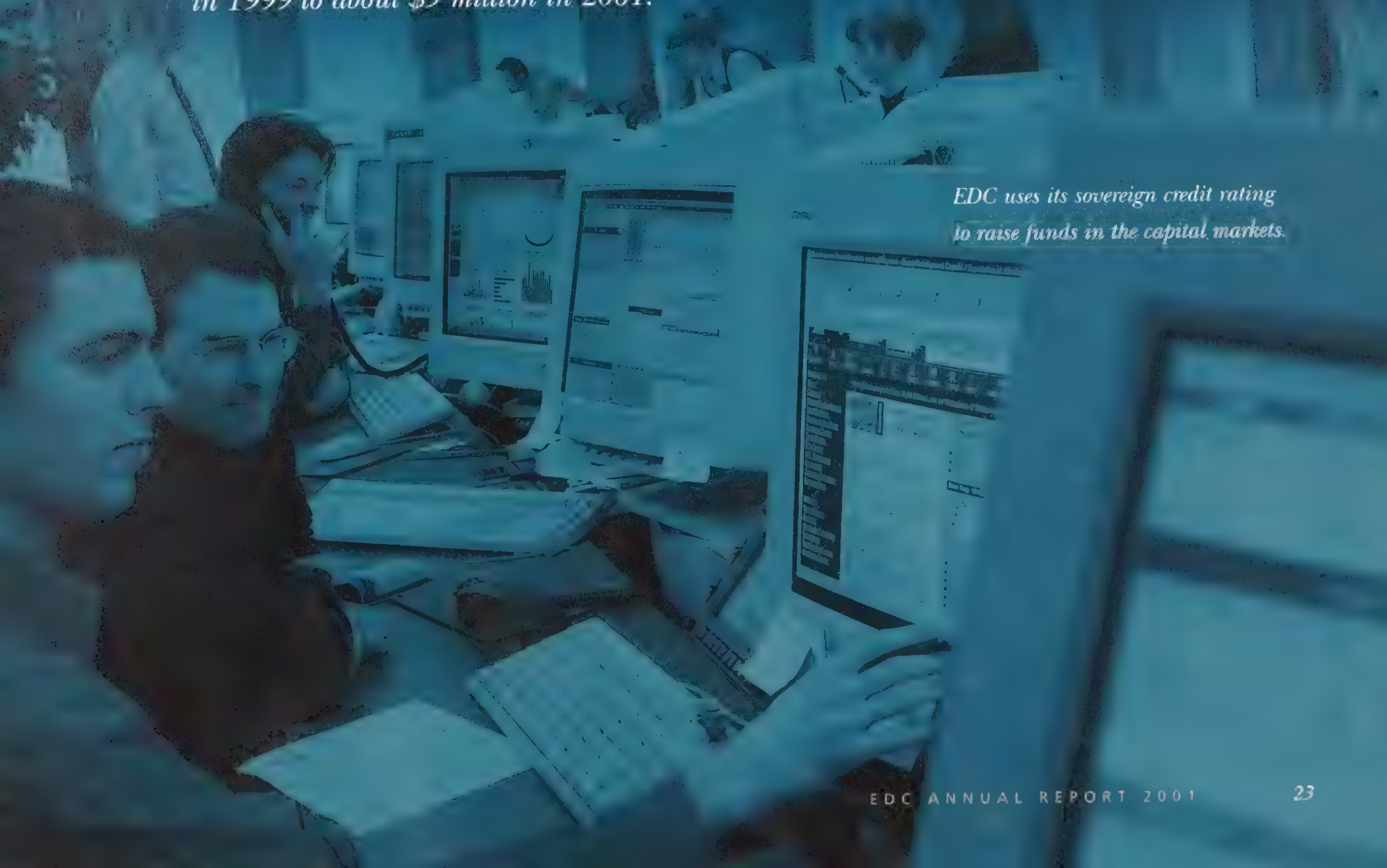
Looking ahead

The global healing process is expected to be very gradual and economic growth this year will again lag its long-term average. This will mean that many of the risks faced by companies selling and investing outside Canada will remain above normal.

These conditions should drive Canadian exporters to mitigate risk. EDC is ready with insurance, bonding and financing services that enable companies to succeed in competitive, high-risk markets.

There may also be increased demand for secure, quality investments such as EDC debt securities. EDC's capacity to serve investors and customers is expanding, as it gradually moves into e-commerce and direct-to-investor sales. Together, these abilities make EDC the astute choice of investors and customers seeking to protect and grow their assets.

Jack Gin's company, Extreme CCTV *manufactures high-tech surveillance cameras in British Columbia. With help from EDC, Gin was able to move aggressively into foreign markets. Exports now account for 70 per cent of the company's sales, triggering impressive growth – from $400,000 in gross sales in 1999 to about $5 million in 2001.*



EDC uses its sovereign credit rating to raise funds in the capital markets.

Marie MacDougall
Vice-President and Treasurer

As an agent of Her Majesty in the right of Canada and supporting the success of Canadian exporters, Export Development Canada is a leading provider of risk-free investments. EDC is accountable to Parliament through the Minister for International Trade, but operates at arm's length from government, maintaining its own Board of Directors and management structure. As you read through the next few pages, you'll see that EDC provides a flexible, reliable and profitable option in the increasingly competitive market for debt securities.

By acting as an agent of the Government of Canada, while providing services to private-sector exporters, EDC adds value both to Canada and to investor portfolios. All of our securities enjoy the full faith and credit of the Canadian government, which is stronger than a guarantee. The combination of a superior credit rating, competitive rates of return and 30 successful years in international markets make EDC an astute choice for investors worldwide.

While exports make an important contribution to every nation's economy, the situation in Canada is unique. With a relatively small domestic market, Canada relies on international trade more than any other OECD country. The small domestic market, however, makes it difficult for many Canadian companies to compete successfully against firms based in more populous countries. Many Canadian businesses turn to EDC for the financial and risk management support needed to export securely and profitably. EDC provides this support by delivering services capitalized on world markets.

EDC also builds for the future by developing flexible products that meet the needs of investors worldwide. EDC's Treasury division is confident that it can structure security products which will add value to investor portfolios.

M. MacDougall

Marie MacDougall
Vice-President and Treasurer

Financing Volumes

EDC is a well-established financial institution with more than 50 years of solid financial performance and growth. This, together with its sovereign credit rating, enables EDC to leverage funds raised in the capital markets to provide support to meet exporters increasing needs.

EDC financing volumes increased by 10 per cent in 2001 to a record level of CAD 8.419 million. This result is reflective of the increased demand by Canadian companies to conduct business internationally.

EDC's portfolio risk is reduced through broad sector and geographic diversification, each with strict concentration limits. EDC's prudent financial management and performance is reflected in the management's discussion and analysis section of this Report.

Funding Program

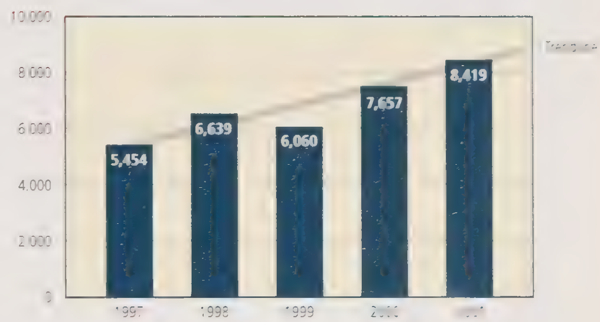
EDC has experienced significant asset growth over the past five years. As a result, the funding program has expanded to keep pace with this growth and investors are provided with opportunities to purchase EDC debt of varying maturities and structures.

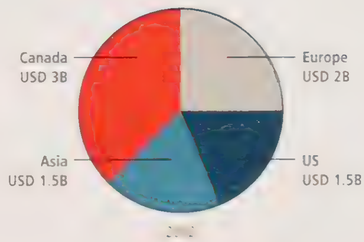
Our funding program satisfies the cash requirements that arise from EDC's activities. In 2002, our funding program is targeted to reach USD 8 billion.

- Short-term funding target of USD 3 billion
- Long-term funding target of USD 5 billion

EDC targets select markets to fund its operations:

- Canada
- Asia
- Europe
- United States





Favourable Capital Treatment

In accordance with the International Convergence of Capital Measurement and Capital Standards set forth by the Basle Committee on Banking Regulations and Supervisory Practices, EDC's debt obligations will incur favourable capital treatment, as they constitute a direct claim on a central government within the OECD. EDC carries a zero risk weighting for regulatory capital applications.

Superior Credit Rating

Investors benefit from EDC's sovereign credit rating.

	Domestic		Foreign Currency	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aa1	P-1	Aa1	P-1
S & P	AAA	A-1+	AA+	A-1+
DBRS	AAA	R-1 (high)	AA (high)	R-1 (high)
JCR	AAA	–	AAA	–

Risk Management

EDC is in the business of providing exporters with tools that allow them to manage the risks they face while doing business internationally. In so doing, EDC is in the business of taking risks and must therefore prudently manage these risks to ensure its long-term financial health. Enterprise Risk Management is further discussed in the management's discussion and analysis section.

A Seasoned Borrower

EDC has maintained its recognized position as an innovative global borrower in capital markets since 1972.

Our strategy of being highly flexible and responsive enables our investors to capitalize on opportunities. Timing of issuance and structuring of debt products is customized to meet investors' needs.

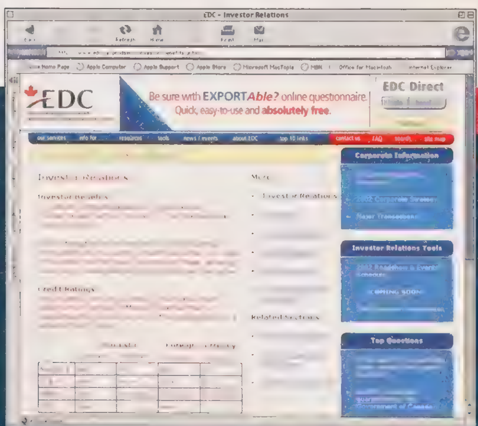
As a frequent international issuer, EDC provides a full spectrum of products as well as a wide variety of maturities and currencies.

- Negotiable Bonds
  Eurobonds, Global Bonds and domestic issues in select markets. Products range from plain vanilla to callable bonds and from zero coupon to dual currency issues.
- Medium-term Notes
- Retail Savings Products
- Private Placements
- Commercial Paper
  Europe, Canada, US, Asia

Investing in Canada

EDC's mandate is to enhance Canada's trade performance. EDC's Treasury division, as a global borrower in the capital markets, is mandated to enhance product choice, transparency and liquidity for investors worldwide.

EDC investors benefit from our superior credit rating. Our debt securities provide investors with a safe investment and incremental yield to enhance the value of their portfolios. As a strong corporate performer, EDC is an astute investment.



VISIT US ON-LINE

If you would like to know more about investing with Export Development Canada, we invite you to visit us on-line at www.edc.ca/invest to review a broad spectrum of key corporate information such as our corporate strategy, executive biographies, financial reports and more.

Selected Outstanding EDC Bond Issues

EMTN Program

(as at December 31, 2001)

Currency	Issue Date	Maturity Date	ISIN	Series	Coupon	Redemption
USD	13-May-98	13-May-03	XS0087005756	98-05	6.0000	500,000,000
USD	6-Oct-92	6-Oct-04	XS0039759674	92-XV	6.7500	285,075,000
USD	19-Apr-01	19-Apr-04	XS0127124302	01-03	5.0000	250,000,000
USD	7-Jun-01	7-Jan-03	XS0130379570	01-15	1.7756	250,000,000
USD	20-Dec-01	22-Mar-06	XS0139656846	01-73	4.2500	230,000,000
USD	14-Nov-01	14-Nov-03	XS0138838155	01-71	1.7900	200,000,000
USD	26-May-00	17-Nov-03	XS0112107593	00-17	6.0000	200,000,000
USD	7-Jun-00	17-Nov-03	XS0112572168	00-17	6.0000	200,000,000
USD	15-Jun-01	15-Dec-06	XS0130962367	01-24	5.5000	100,000,000
USD	25-Jun-01	25-Jul-06	XS0131134750	01-25	5.5900	100,000,000
USD	30-Aug-01	30-Aug-11	XS0134624880	01-60	2.7313	100,000,000
USD	5-Feb-93	5-Feb-03	XS0041640672	93-YV	1.8338	100,000,000
USD	5-Sep-01	13-Sep-04	XS0133964931	01-58	4.1500	85,000,000
USD	7-Jun-01	3-Jun-04	XS0130676512	01-22	0.0000	70,616,000
USD	7-Jun-01	2-Jun-04	XS0130676785	01-21	0.0000	60,000,000
USD	19-Aug-99	19-Aug-03	XS0100274629	99-22	6.0000	60,000,000
USD	16-Sep-99	16-Sep-04	XS0101565991	99-25	6.0500	60,000,000
USD	28-Nov-00	28-Nov-05	XS0120500383	00-37	6.4000	50,000,000
USD	28-Mar-01	28-Mar-03	XS0127170248	01-04	4.8500	50,000,000
CAD	9-May-00	9-May-03	XS0110216461	00-04	6.0000	100,000,000
EUR	23-May-00	23-May-02	XS0111720917	00-15	3.2540	200,000,000
JPY	25-Jun-98	25-Jun-10	XS0088134266	98-08	2.2050	10,000,000,000
JPY	30-Aug-00	5-Sep-02	XS0116707331	00-29	5.0000	8,354,000,000
JPY	5-Jul-01	5-Jul-11	XS0131849332	01-33	1.0000	2,300,000,000
JPY	18-Jul-01	18-Jul-11	XS0131734351	01-32	1.0000	2,000,000,000
JPY	22-Aug-01	22-Aug-11	XS0133487404	01-54	1.3500	2,000,000,000
JPY	19-Dec-01	19-Dec-11	XS0140363424	01-72	1.2500	2,000,000,000
AUD	9-Mar-99	9-Mar-09	XS0095160932	99-02	5.2500	100,000,000

Domestic Program

Currency	Issue Date	Maturity Date	ISIN	Series	Coupon	Redemption
CAD	1-Sep-98	1-Aug-08	30215ZDA5	98-J	0.0580	126,000,000
CAD	9-Feb-99	9-Feb-09	30215ZDL1	99-D	0.0500	500,000,000
CAD	24-Mar-99	24-Mar-05	30215ZDU1	99-L	0.0545	100,000,000
CAD	6-May-99	6-May-04	30215ZEA4	99-R	0.0550	75,000,000
CAD	10-May-99	10-May-06	30215ZEC0	99-U	0.0565	100,000,000
CAD	10-May-00	10-May-07	30215ZFF2	00-F	0.0638	75,000,000
CAD	22-Jun-00	22-Jun-10	30215ZFJ4	00-J	0.0620	1,000,000,000
CAD	24-Jan-01	1-Jun-11	302150DG9	01-A	0.0575	1,000,000,000
USD	20-Jan-00	6-Dec-02	30215ZBF1	00-B	1.8200	150,000,000

Legal Disclaimer: Each investor should consult his or her own investment and legal advisors.

Left to right: Peter Allen, Susanne Laperle, Gilles Ross and Ian Gillespie.

Left to right: Ron Dahms, Eric Siegel and Rolfe Cooke.

Executive Management Team

A. Ian Gillespie
President and Chief Executive Officer

Peter Allen
Senior Vice-President and Chief Financial Officer

Rolfe Cooke
Senior Vice-President, Short-term Financial Services

Ron Dahms
Senior Vice-President, Business Development

Susanne Laperle
Senior Vice-President, Human Resources

Gilles Ross
Senior Vice-President, Legal Services and Secretary

Eric Siegel
Executive Vice-President, Medium- and Long-term Financial Services

Management Representatives

Rosemarie Boyle
Corporate Communications, Corporate Reputation and External Relations

Jim Brockbank
Risk Management Office

Jim Christie
National Sales

Jim Curley
Short-term Credit Standards

Don Curtis
Industrial Equipment

June Domokos
International Markets – Asia, Africa and Middle East

Françoise Faverjon-Fortin
Quebec Region

Arthur FitzGerald
Environmental Advisory Services

Peter Foran
Information Technologies

Robert Forbes
Engineering and Professional Services

Ruth Fothergill
Ontario Region

John Gagan
Corporate Finance and Control

Pierre Gignac
Insurance and Loan Services

Glen Hodgson
Economics

John Hutchison
SME Services

Harry Kaunisviita
Corporate Business Systems

Louise Landry
Strategic Planning and Corporate Performance

Marc Leduc
Legal Services

Marie MacDougall
Treasury

Mike McLean
International Markets – Americas and Europe

Lewis Megaw
Western Region

Keith Milloy
Short-term Insurance

Gilles Morin
eBusiness

Mike Neals
Marketing

Sherry Noble
Structured Finance

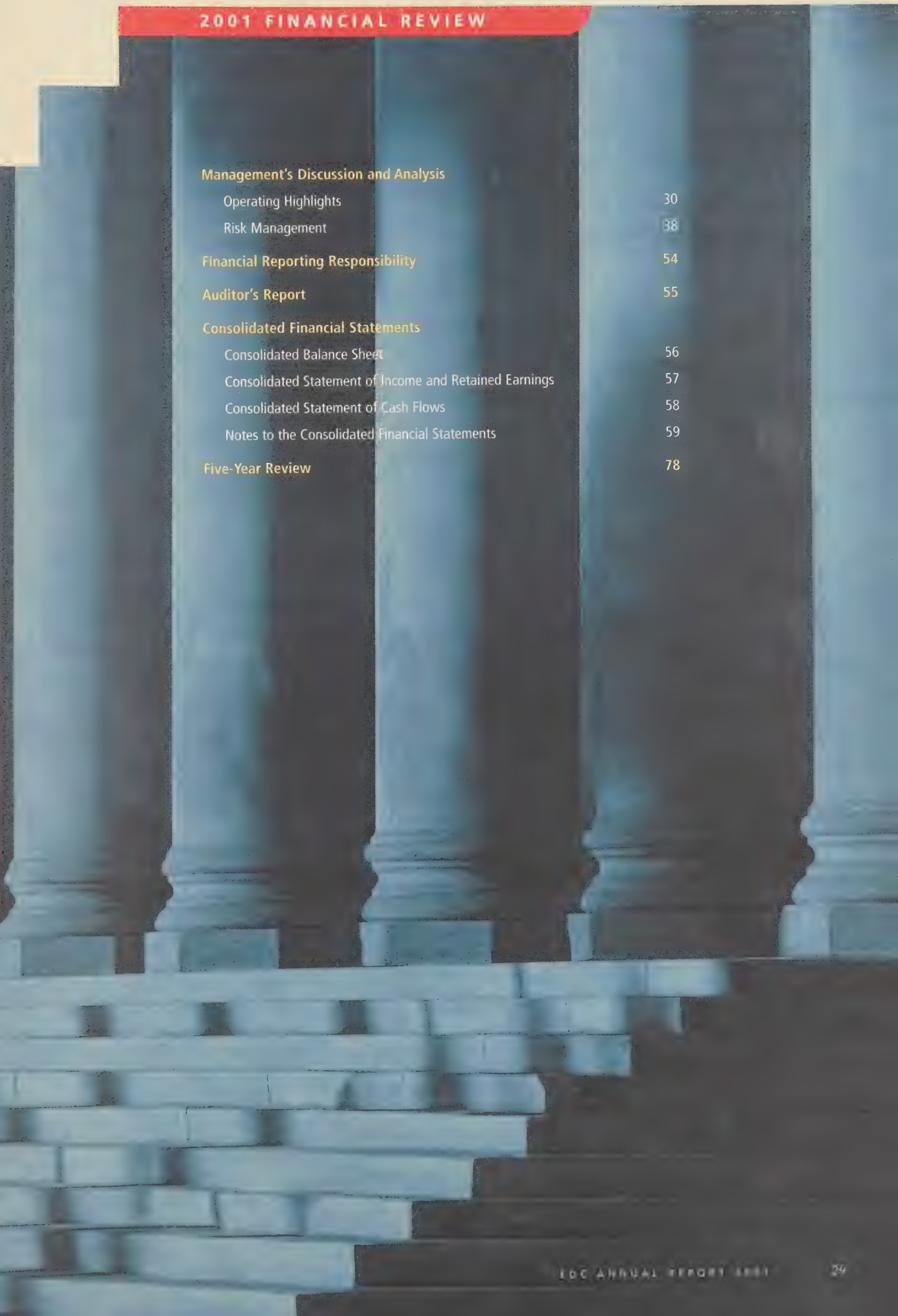
Kevin O'Brien
Transportation and Equity

Brian Pearce
Internal Audit and Evaluation

Stephen Poloz
Economics

Ed Simac
Information Systems

Henri Souquières
International Markets



2001 FINANCIAL REVIEW

Operating Highlights

Income Statement Discussion

Net Income

Net income reported for 2001 was $58 million, a decrease of $136 million from the 2000 level of $194 million primarily due to the requirements for increased provisioning resulting from the deterioration of credit quality of a number of counterparties post September 11. EDC's provision for credit losses increased by $192 million, or 35% from the level of $549 million in 2000. Despite a business volume increase of $2.7 billion, or 8%, in the insurance programs, there was a $10 million decrease in insurance premiums and guarantee fees. The reduction was primarily the result of reinsurance in the short-term program and domestic transactions now being underwritten by London Guarantee Insurance Company. Administrative expenses were 27% higher than 2000 mainly as a result of the increased human resources and technology costs required to manage higher business volumes as well as the reduced expense recovery received for the Canada Account transactions administered by EDC. The impact of all of the above was partially offset by an increase in net interest income of $98 million which was primarily the result of lower funding costs in 2001.

The following table outlines net income and return on shareholder's equity over the last five years:

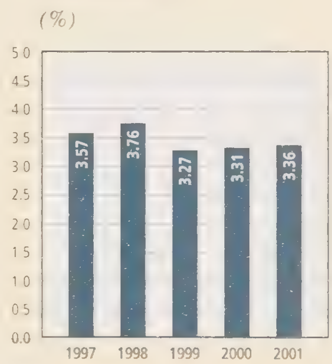
($ in millions)	**2001**	2000	1999	1998	1997
Net income	**58**	194	118	135	128
Shareholder's equity	**2,050**	1,992	1,798	1,680	1,545
Return (%) on shareholder's equity	**2.8%**	9.7%	6.6%	8.0%	8.3%

Net Interest Income

The net margin of 3.36%, which represents net interest income expressed as a percentage of average performing assets employed, increased by 5 basis points from the 2000 level of 3.31%.

The following items contributed to this increase:

	bp
Decrease in investment portfolio	6
Decrease in debt funding costs	5
Impact of increased prepayment fees	2
Increased amortization of non-accrued capitalized interest	2
Interest reversals on new impaired loans	(8)
Reduced gains on sale of shares/loan assets	(2)
Net increase in net interest margin	5 bp



The following had a positive impact on the net interest margin: decreased investment portfolio balances, decreased debt funding costs, increased prepayment fees and a $6 million increase in the amortization of non-accrued capitalized interest from performing loans.

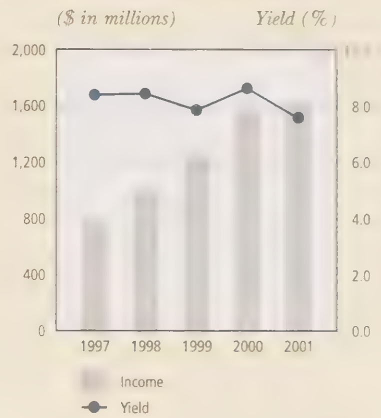
The average balance of the investment portfolio declined from $3,215 million in 2000 to $2,840 million in 2001. These investments carry a low yield so the net interest margin increases as the investment balance declines. Debt funding costs were decreased significantly when EDC had the opportunity to increase the proportion of short-term funding at very favourable rates. In 2001, $16 million of deferred fee income and prepayment fees were recognized on prepayments totaling $234 million. Deferred fees are recognized into income in proportion to the remaining outstanding loan balances.

The increases listed above were partially offset by the interest reversals on new impaired loans as well as reduced gains on sale of shares and loan assets. The reversal of interest on new impaired loans totaled $28 million in 2001, which contributed to an 8 basis point decline in net interest margin. New impaired loans totaled $482 million in 2001, compared to $95 million in 2000. The increase was due to the downturn in the economy during 2001. In 2000, the Corporation recognized a $7 million gain on the sale of shares and loan assets compared to $2 million in 2001.

($ in millions)	2001	2000	1999	1998	1997
Average gross loans receivable	**22,982**	19,744	17,331	14,286	11,129
Average investment portfolio balance	**2,840**	3,215	2,758	1,908	1,759
Less: average impaired loans	**1,596**	1,311	1,468	1,861	1,869
Total average assets employed	**24,226**	21,648	18,621	14,333	11,019
Interest income:					
Loans	**1,621**	1,585	1,258	1,055	782
Investment portfolio	**127**	197	146	126	92
Total interest income	**1,748**	1,782	1,404	1,181	874
Interest expense	**934**	1,066	796	642	481
Net interest income	**$814**	$716	$608	$539	$393
Net margin	**3.36%**	3.31%	3.27%	3.76%	3.57%

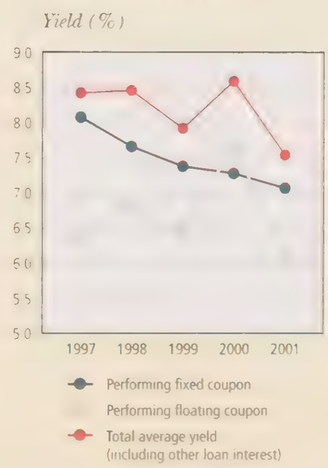
Interest Income – Loans

For 2001, loan interest income was $1,621 million, an increase of $36 million, or 2%, from the level of $1,585 million in 2000. The performing gross loans receivable averaged $21,386 million in 2001 (2000 – $18,433 million) with an average yield of 7.58% (2000 – 8.60%). In 2001, disbursements exceeded repayments by $1,842 million, which, when combined with increased foreign exchange rates, had the impact of increasing the average performing loans by $2,953 million, or 16%, over 2000.



($ in millions)	
Volume increases	152
Yield decreases	(179)
Foreign exchange impact	57
Increase in other loan interest	6
Net change in interest income – loans	$36

Performing fixed rate loans receivable averaged $10,235 million in 2001 (2000 – $7,873 million) with an average coupon yield of 7.19% (2000 – 7.28%), earning interest of $736 million (2000 – $573 million). The increase in average fixed rate loans receivable was principally the result of increases in the aerospace and mining and power industry sectors. The coupon on performing fixed rate loans receivable decreased slightly over last year. This was due to the changes in the portfolio as older loans earning higher interest rates reflective of previous periods were repaid. Meanwhile, current loan disbursements carry lower interest rates which are reflective of the drop in the long-term US treasury rate. Disbursements during the year yielded 6.65% while existing loans repaid carried a yield of 8.17%. New fixed rate loans signed in 2001 yielded 6.68% compared with 7.81% in 2000.



The performing floating rate loans receivable averaged $11,151 million in 2001 (2000 – $10,560 million) with an average coupon rate of 6.13% (2000 – 7.68%) earning interest of $684 million (2000 – $811 million). The six month moving average U.S. dollar LIBOR was 4.65% in 2001, a decrease of 188 basis points from the 2000 average. The reduction in U.S. dollar LIBOR resulted in decreased floating rate interest income which led to lower yields on the floating rate loans portfolio. New floating rate loans signed in 2001 yielded 1.75% over LIBOR compared with 2.22% in 2000.

The following table analyzes loan interest income as a percentage of the average loans receivable:

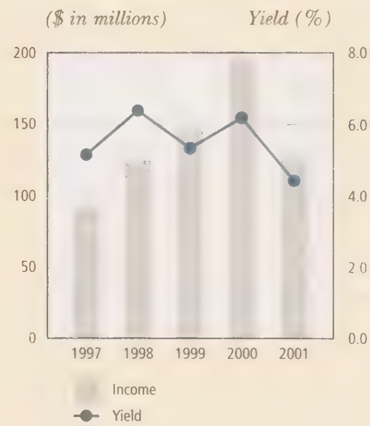
($ in millions)	**2001**	2000	1999	1998	1997
Gross loans receivable:					
Average performing fixed rate	**10,235**	7,873	7,005	5,906	4,685
Average performing floating rate	**11,151**	10,560	8,858	6,519	4,575
Average performing gross loans receivable	**21,386**	18,433	15,863	12,425	9,260
Interest income – loans:					
Performing fixed rate interest	**736**	573	515	452	377
Performing floating rate interest	**684**	811	572	442	291
Other loan interest	**201**	201	171	161	114
Total interest income – loans	**$1,621**	$1,585	$1,258	$1,055	$782
Yields – performing loans					
Performing fixed rate coupon	**7.19%**	7.28%	7.35%	7.65%	8.05%
Performing floating rate coupon	**6.13%**	7.68%	6.46%	6.78%	6.36%
Total loan interest yield	**7.58%**	8.60%	7.93%	8.49%	8.44%

Other loan interest income comprises loan fee income and amortization of non-accrued capitalized interest (NACI). Total loan fee income was $115 million in 2001, compared to $113 million in 2000. Included in the loan fee income for 2001 was $16 million in loan prepayment fees (2000 – $9 million). Amortization of NACI was $83 million in 2001, $6 million greater than in 2000. Also included in other loan interest income is a gain on sale of assets of $2 million (2000 – $7 million) and debt relief of $1 million (2000 – nil). There were no amounts included in other loan interest income for cash receipts from impaired loans (2000 – $4 million).

Interest Income – Investment Portfolio

EDC's investment portfolio consists of marketable securities, investments and government treasury bills. The portfolio interest income decreased by $70 million between 2000 and 2001. The main components of that change were a decrease in the average amount invested and lower interest rates.

Average investment balances (which include associated derivative contracts) decreased from $3,215 million in 2000 to $2,840 million in 2001. Investment balances were high in 2000 for two reasons. First, EDC had to ensure sufficient liquidity during the critical Y2K period early in the year. Second, EDC increased investment balances to meet large loan disbursements late in the year.



($ in millions)	
Volume decreases	(27)
Yield decreases	(47)
Foreign exchange impact in interest income	4
Net change in interest income – investment portfolio	$(70)

Investment yields decreased from 6.14% in 2000 to 4.47% in 2001. This reflects the fact that interest rates in Canada and the United States were at lower levels during most of 2001 relative to 2000. The Federal Reserve Bank decreased the federal funds rate by 475 basis points while the Bank of Canada lowered its target for the overnight rate by 350 basis points over the course of the year. The low investment yield also reflects a reallocation, after September 11, of a portion of marketable securities to government treasury bills.

Interest Expense

Interest expense decreased by $132 million between 2000 and 2001. The main factor that accounted for this change was a decrease in the general level of interest rates. However, the decrease was partially offset by an increase in overall debt volume as well as the impact of changes in foreign exchange rates on the translation of foreign currency balances.

The principal average balance for floating rate debt was $14,409 million in 2001 (2000 – $13,672 million) with an average cost of 4.51% (2000 – 6.34%), resulting in interest expense of $650 million (2000 – $867 million). Long-term debt instruments comprise 77% of the floating rate debt portfolio while short-term debt (i.e. commercial paper) makes up the balance.

The principal average balance for fixed rate debt was $4,438 million in 2001 (2000 – $3,012 million) with an average cost of 6.34% (2000 – 6.58%), resulting in interest expense of $281 million (2000 – $198 million).

($ in millions)

Volume increases	107
Cost of funds decreases	(272)
Foreign exchange impact on interest expense	32
Net change prior to foreign currency translation gain/loss	(133)
Change in the Corporation's foreign currency translation gain/loss	1
Net change in interest expense	$(132)

Levels of interest rates both in Canada and the United States were lower in 2001, relative to 2000. This was reflected in the average cost of funds, which decreased from 6.39% in 2000, to 4.95% in 2001. The decrease in the general level of interest rates had the most significant impact on the floating rate debt portfolio with the average yield falling by 183 basis points.

The overall increase in debt volume is the result of higher borrowing requirements necessary to support elevated lending volumes. The average balance of long-term debt increased from $13,110 million in 2000 to $15,535 million in 2001 while the average balance of short-term debt decreased from $3,574 million in 2000 to $3,313 million in 2001. The average balances for both short-term and long-term debt include associated derivative contracts.

A weakening of the Canadian dollar during 2001 increased interest expense on foreign currency denominated debt by $32 million.

Interest expense, as reported on the income statement, includes the Corporation's foreign exchange translation gain/loss for the year. Included in interest expense for 2001 is a translation gain of $75 thousand (2000 – $1 million gain).

Insurance Premiums and Guarantee Fees

The following table analyzes the average premium rate for insurance premiums and guarantee fees:

($ in millions)	2001		2000	
	$	%	$	%
Short-term program:				
Short-term insurance average exposure	**24,500**		26,822	
Premiums and fees earned	**91**		103	
Average short-term premium rate		**0.37**		0.38
Medium-term program:				
Medium-term insurance average exposure	**5,162**		4,492	
Premiums and fees earned	**35**		34	
Average medium-term premium rate		**0.68**		0.76
Loan guarantees:				
Loan guarantees average exposure	**2,145**		1,825	
Loan guarantee fees earned	**8**		7	
Average loan guarantee fee rate		**0.37**		0.38

Short-term insurance premium revenue totaled $91 million, or 72% of 2001 insurance premiums earned. Short-term premium revenue decreased by $12 million or 12% from the 2000 level of $103 million. This was the result of a decline in short-term insurance exposure, which decreased by $2,322 million, or 9% over 2000 mainly due to domestic transactions now being underwritten by London Guarantee Insurance Company.

The medium-term premium revenue for the year totaled $35 million, an increase of 3% over 2000. The average exposure in the medium-term insurance programs increased by $670 million, or 15% over 2000. This increase was primarily due to the growth in both the performance security and surety bond programs. The growth in the surety bond program, which carries a lower average premium rate, contributed to the decrease in the average premium rate within the medium-term programs for 2001. The decrease in the average loan guarantee fee rate was driven primarily by the signing of loan guarantees with higher credit ratings, which carry lower guarantee fees.

Provision for Credit Losses

In 2001, EDC undertook a review of its general loan allowance in order to update the methodology used to reflect current best practices. This review was conducted jointly by EDC and the Office of the Auditor General. More detailed information regarding the parameters of the review is provided in the allowances for losses on loans, loan commitments and guarantees section.

The result of the review was the adoption of a new methodology for estimating the losses on loans and guarantees which is better aligned with industry best practice and provides greater specificity in the determination of the general allowance. In addition, to provide for probable losses arising from undisbursed loan commitments, management also maintains an allowance for loan commitments under the new methodology. The new methodology resulted in reduced provision rates but the impact of this was offset by the new allowance category for undisbursed commitments. Had the new methodology been implemented at the beginning of the year, before any credit deterioration took place, the impact on the financial statements would have been negligible.

The change in methodology represents a change in estimate of the amount of losses on loans and prior periods have not been restated.

The following table analyzes the expense for the provision for credit losses over the last five years:

($ in millions)	**2001**	2000	1999	1998	1997
Provision for credit losses pertaining to:					
Loans	**208**	381	397	313	184
Loan commitments	**521**	–	–	–	–
Loan guarantees	**(71)**	10	(7)	32	52
Insurance	**83**	158	133	88	59
Total provision for credit losses	**$741**	$549	$523	$433	$295

A provision charge of $208 million (2000 – $381 million) was made to the income statement for losses on loans. This was partly the result of significant credit downgrades which occurred in the fourth quarter of 2001, as well as the increase in allowance required on new impaired loans. This was offset by a decrease in the provision rates on the adoption of a new general provisioning methodology.

A provision charge of $521 million was made to the income statement for losses on loan commitments. This charge was made in accordance with the new general provisioning methodology. Under this methodology, a provision is charged for those loans that are committed or signed, but not yet disbursed. In addition to reflecting the new methodology upon implementation, the provision for loan commitments was also greatly impacted by credit downgrades in the fourth quarter of 2001.

A provision credit was made to the income statement for credit losses on loan guarantees in the amount of $71 million (2000 – $10 million charge). This was the result of a decrease in the provision rates on the adoption of the new general provisioning methodology, as well as slow growth in new signings.

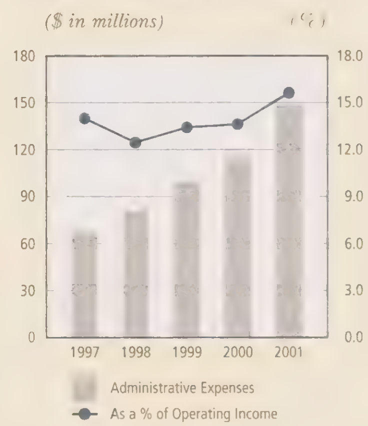
During the year, there was an $83 million charge to the income statement for the provision for insurance claims. The decrease in current insurance claim provisioning levels was partly the result of a decrease in insurance premiums due to reinsurance ceded in the short-term programs and also the result of domestic volumes now being underwritten by London Guarantee Insurance Company. Of the total provision for insurance claims, $74 million was due to the re-evaluation of recoverable claims that were written-off in 2001 (2000 – $62 million).

Administrative Expenses

Net administrative expenses for 2001 totaled $149 million, an increase of 27% from the prior year. Expenditures for salaries, benefits and technology were higher as a result of strategic investments in technology and people in order to continue to grow the business.

In addition, amounts retained from Canada Account receipts and recoveries to meet expenses and overhead related to Canada Account transactions decreased by $16 million in 2001 resulting in a corresponding increase in EDC's administrative expenses. During 2001, a new methodology to compensate EDC for expenses and overhead related to Canada Account activities was instituted. This, together with a low volume of activity on Canada Account, resulted in the Corporation retaining $12 million in 2001 compared to $28 million in 2000.

Expressed as a percentage of operating income (efficiency ratio), administrative expenses increased to 15.7% in 2001, from 13.6% in 2000.



Comparison with 2001 Plan

Business volumes for 2001 reached a record $44.3 billion, a 9% increase over the 2000 level of $40.9 billion, and exceeded the 2001 planned volume of $44.0 billion. This increase over plan can be attributed to contract insurance and bonding surpassing plan by $1.3 billion, political risk insurance by $500 million and financing by $600 million. These increases were offset by short-term insurance, which was $2.1 billion under plan due to declining volumes resulting from the slowdown in the global and U.S. economies. Volumes represent export volumes only. Short-term domestic volumes are not included in the totals.

Loan assets and loans payable increased over plan mainly due to a stronger year end U.S. dollar exchange rate than was anticipated in the plan. The allowance for loan commitments and guarantees increased significantly as a result of the new provisioning methodology which includes provisioning on undisbursed loan commitments.

The 2001 net income of $58 million was lower than the 2001 Corporate Plan projection of $295 million primarily due to increased provisions for credit losses. Provisions for credit losses were $250 million higher than plan in 2001 mainly due to the credit deterioration that occurred as a result of the economic downturn and the events subsequent to September 11th . Net interest income exceeded planned amounts by $45 million, however, insurance premiums and guarantee fees were below plan by $38 million. Short-term premiums were below plan due to lower volumes, and although medium-term volumes exceeded plan, the medium-term premiums were below plan due to a change in mix to the surety bond program which carries a lower premium rate. Administrative expenses were below plan by $6 million, and correspondingly, the efficiency ratio was 15.7%, better than the plan of 16.5%. The improved efficiency was the result of efforts to contain costs in the current economic environment.

2002 Corporate Plan

The Corporate Plan projects the year 2002 business volume to decline to $40 billion, reflecting the uncertainty caused mainly by the dramatic slow down in the global and U. S. economies in 2001 and the terrorist attacks of September 11th. The loans receivable and loans payable balances are expected to decrease slightly from 2001 actuals as a result of declining business volumes and the U.S. dollar exchange rate.

Net income is planned at a loss of $159 million, which is lower than 2001 by $217 million. The major projected income variances from the 2001 actual results are represented by a reduction in net interest income of $24 million due to lower loan volume and flattening insurance premiums and fees. In addition, provision for credit losses are expected to increase by $156 million mainly due to projected aerospace sector impairments. Administrative expenses are expected to increase by $35 million in 2002, and are set at levels required to continue investing in technology, while maintaining staffing at 2001 levels.

	2002 Corporate Plan	**2001 Actual Results**	2001 Corporate Plan
Volume			
($ in billions)			
Financing	5.2	**8.4**	7.8
Contract insurance and bonding	3.3	**5.1**	3.8
Political risk insurance	3.5	**4.0**	3.5
Short-term insurance *	28.0	**26.8**	28.9
Total	$40.0	**$44.3**	$44.0

**Excludes domestic volume*

	2002 Corporate Plan	**2001 Actual Results**	2001 Corporate Plan
Balance Sheet			
($ in millions)			
Assets			
Loans receivable	23,376	**23,718**	20,840
Allowance for losses on loans	3,142	**2,892**	2,556
Net loans receivable	20,234	**20,826**	18,284
Cash and marketable securities	2,422	**2,174**	2,317
Investments	342	**172**	180
Accrued interest and other assets	470	**454**	557
Derivative related amounts	287	**167**	579
Total Assets	$23,755	**$23,793**	$21,917
Liabilities and Shareholder's Equity			
Loans payable	20,010	**19,609**	18,080
Accrued interest and other liabilities	529	**566**	782
Allowance for loan commitments and guarantees	664	**588**	150
Allowance for claims on insurance	498	**464**	418
Derivative related amounts	324	**516**	139
Total Liabilities	22,025	**21,743**	19,569
Share capital	983	**983**	983
Retained earnings	747	**1,067**	1,365
Shareholder's Equity	1,730	**2,050**	2,348
Total Liabilities and Shareholder's Equity	$23,755	**$23,793**	$21,917

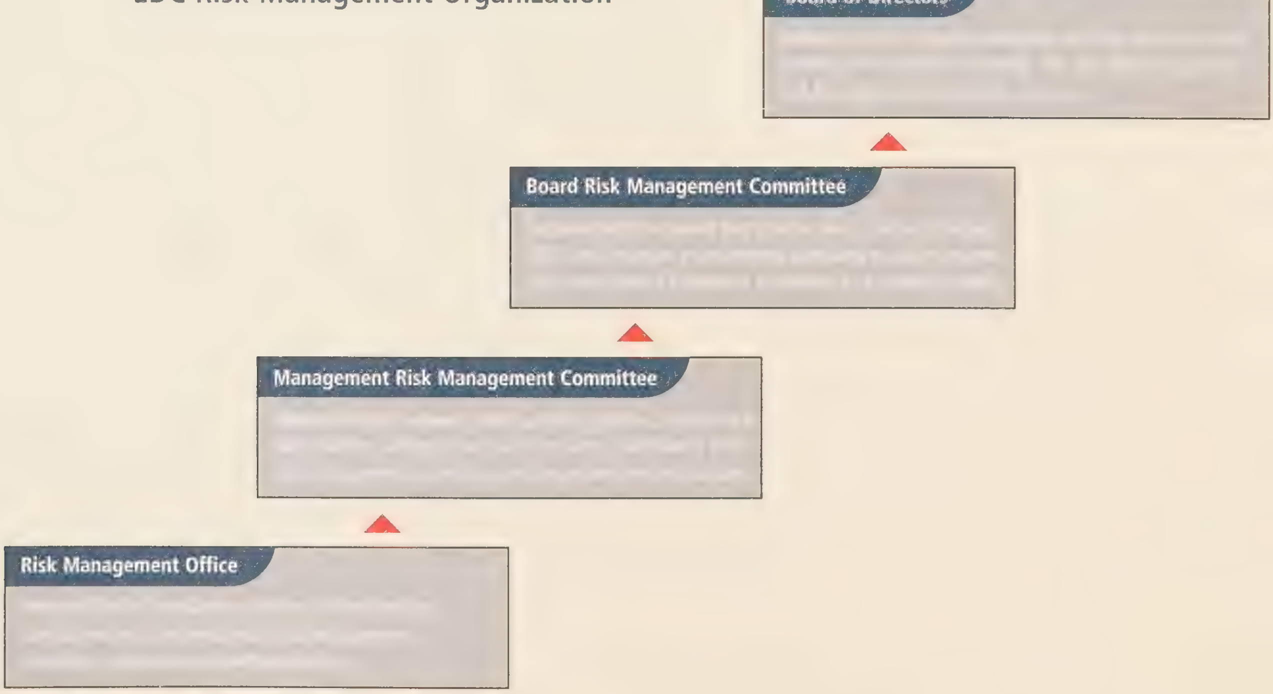
	2002 Corporate Plan	**2001 Actual Results**	2001 Corporate Plan
Income Statement			
($ in millions)			
Interest income			
Loans	1,501	**1,621**	1,788
Investment portfolio	93	**127**	161
	1,594	**1,748**	1,949
Interest expense	804	**934**	1,180
Net interest income	790	**814**	769
Insurance premiums and guarantee fees	132	**134**	172
Provision for credit losses	897	**741**	491
Income after provision for credit losses	25	**207**	450
Administrative expenses	184	**149**	155
Net Income/(Loss)	$(159)	**$58**	$295
Dividend	$50	**–**	–

EDC strives to balance the risk it takes with the financial and mandate returns it generates for that risk to ensure continued capacity for Canadian exporters. Risk management is central to EDC's business. Not only must the Corporation manage the risks it faces in its operations, it is in the business of providing exporters and investors with the tools they need to manage their own risks. To enhance its risk management capabilities, EDC takes guidance from an Enterprise Risk Management framework that provides a comprehensive view of the key risks it faces and tools to measure, monitor and manage them. This framework comprises guiding principles, policies and analytical and reporting tools that support EDC in carrying out effective risk management practices.

The ongoing responsibilities for risk management are shared throughout the Corporation. The Board of Directors maintains overall responsibility for approval of risk management policies within the Corporation and provides additional governance through its Risk Management Committee. A management Risk Management Committee oversees compliance with risk management policies and processes and is accountable to the Board Risk Management Committee in this endeavour. A central Risk Management Office, led by EDC's Chief Risk Officer, coordinates and develops risk management standards and methodologies and manages operational asset exposures while working closely with the business units who originate these exposures.

EDC monitors key risks within five risk categories: credit, market, operational, organizational and business. To date, EDC's focus as a financial institution has been on the management and ongoing development of the credit and market risk components. Attention is also focussed on the integration of the remaining elements of its framework centered on operational, organizational and business risks.

EDC Risk Management Organization



Credit Risk

Operational Risk

Market Risk

Organizational Risk

Business Risk

Each of the above risks is discussed in greater detail on the following pages.

Credit Risk

Credit risk represents the most substantial risk to EDC. As at December 31, 2001, EDC has $48.7 billion of exposure to credit risk, as detailed on the next page. The Corporation regularly reviews its processes and systems in order to improve the administration and assessment of credit risk associated with financing, insurance and treasury transactions. The Corporation is committed to ensuring that its origination and portfolio management policies and methodologies embody relevant best-in-class practices within the private sector and the public sector.

As organizations develop risk management capabilities, there is an increasing recognition of the central importance of the ability to transfer or otherwise mitigate credit risk to manage credit exposure and portfolio concentrations. As risk transfer and mitigation tools continue to develop in international capital and trade finance markets, greater opportunities for this kind of active portfolio management may emerge, providing EDC with enhanced flexibility in maintaining its capacity for taking risk.

EDC manages the credit risk associated with its exposures at the portfolio level and the transaction level, as follows:

Portfolio Credit Risk Management

EDC has in place a Credit Risk Management Framework. The policy framework establishes the approval responsibilities of the Board of Directors, the oversight responsibilities of the Risk Management Committee of the Board of Directors, and the operational, approval and reporting responsibilities of Management. Among other things, the framework includes methodologies to determine country risk limits, industry risk limits and commercial obligor risk limits. All limits are determined based on the Corporation's capital base and risk factors associated with the exposure. The framework also provides for reporting of management transaction approvals, risk aggregations and compliance with the policies to the Board of Directors on a regular basis.

Country risk is continually reviewed by the Corporation's Economics Department to take into consideration any changes in the world environment or a specific country. The Economics Department risk rates all countries, and all other things being equal, the higher the country risk, the lower the country risk limit.

Commercial obligor risk is regularly reviewed by the Corporation to take into consideration any changes that may affect the credit risk of the commercial obligor. The Corporation risk rates all commercial obligors, and all other things being equal, the higher the risk, the lower the commercial obligor risk limit.

It is Management's responsibility to operate the Corporation's credit risk exposures within the limits established by the Board. Any exceptions to limits require specific Board approval.

Specific Transaction Risk Management

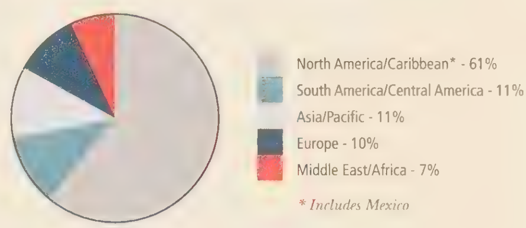
In order to better understand the credit risk associated with EDC's individual credit commitments, the Corporation is organized into business teams along industry sectors. The business teams are responsible for the proper due diligence associated with each credit commitment. Within the business team structure, each individual has a delegation of approval authority based on relevant expertise and experience. Every credit commitment (except for very small amounts) requires the approval of at least two individuals with delegated approval authority.

Significant potential transactions with respect to credit risk and structure are reviewed for endorsement by the Risk Management Office prior to authorization. The Risk Management Office reports to the Chief Risk Officer who in turn reports to the Senior Vice-President and Chief Financial Officer. Very significant transactions with respect to credit risk and structure are also reviewed for endorsement by the management Risk Management Committee. The management Risk Management Committee comprises the following seven corporate officers: the President; the Executive Vice-President of Medium- and Long-term Financial Services; the Senior Vice-President and Chief Financial Officer; the Senior Vice-President, Legal Services, and Secretary; the Senior Vice-President of Short-term Financial Services; the Senior Vice-President of Business Development; and the Chief Risk Officer. In addition, certain very significant transactions with respect to credit risk and structure require the approval of the Board of Directors.

The Corporation actively monitors and manages the credit risks associated with transactions post-commitment to ensure that where there is a change in the risk, the implications are assessed and managed. Where negative changes in risk have occurred, the transactions are downgraded, allowances adjusted and plans to mitigate potential losses put into place.

Concentration of Exposure

The following reflects the major concentrations of total commercial and sovereign exposure in the geographic market and country where the risk resided for all operations at the end of 2001.



Country	Loans Portfolio: Gross Loans Receivable	Loans Portfolio: Undisbursed Commitments	Insurance Policies and Guarantees Outstanding: Short-term	Insurance Policies and Guarantees Outstanding: Medium-term	Investments and Derivative Financial Instruments [1]	2001 Exposure	
($ in millions)						$	%
U.S.	10,270	1,863	4,272	2,542	1,171	20,118	41
Canada	2,203 [2]	532 [2]	203	2,518 [3]	1,172	6,628	14
Mexico	1,322	464	178	328	–	2,292	5
China	1,090	789	167	238	–	2,284	5
Brazil	884	160	301	324	–	1,669	3
United Kingdom	908	–	199	103	24	1,234	3
Indonesia	964	34	45	9	–	1,052	2
Peru	934	–	10	107	–	1,051	2
Venezuela	675	156	43	15	–	889	2
Germany	243	–	223	32	214	712	1
Other [4]	5,733	940	1,948	2,040	67	10,728	22
Total	$25,226	$4,938	$7,589	$8,256	$2,648	$48,657	100

[1] *Investments include amounts represented by cash, marketable securities and investments.*

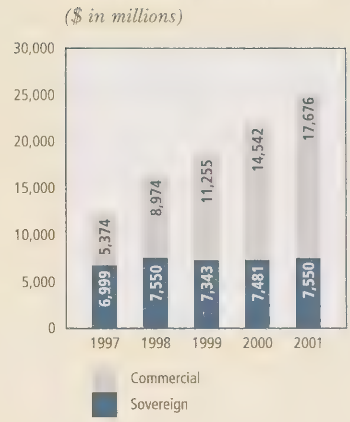
[2] *Includes the impact of one transaction signed in 1997 for $1,497 million with recourse to the Consolidated Revenue Fund of Canada in the event of a loan default.*

[3] *Includes $2,366 million of surety bond insurance where risk rests with the exporter. A total of 54% of the exports insured in the surety bond program are to the United States. The balance represents exports to other countries.*

[4] *Includes 162 countries with total exposure ranging from $0.001 million to $609 million.*

Concentration of Exposure – Loans Portfolio

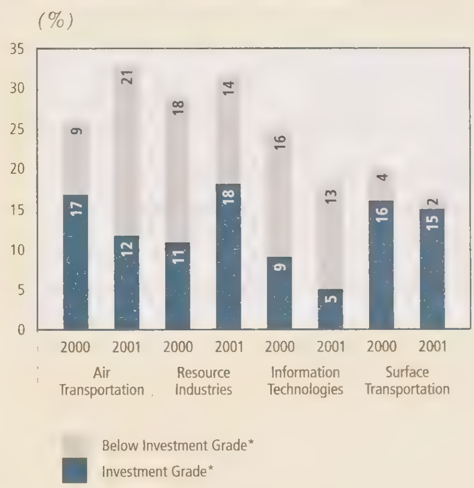
Over the last four years, gross loans receivable have increased at an average yearly rate of 20%, moving from $12,373 million in 1997 to $25,226 million in 2001. This increase is due to the continued growth in commercial financing outstanding, ranging from $5,374 million in 1997 to $17,676 million in 2001. Over the last four years, commercial loans have increased by an average yearly rate of 36%, while sovereign loans have experienced only 2% average growth over the same period.



Accordingly, the mix between commercial and sovereign loans has continued to shift in favour of commercial loans. In 1997, the ratio of commercial to sovereign was 43:57, while by 2001 it had shifted to 70:30. In 2001, new signing volume to commercial borrowers accounted for 99% of total signing volume. During 2001, 252 customers were supported through loans financing (2000 – 204 customers).

Performing Commercial Loans

As depicted, the commercial exposure in terms of industry sector mix has shifted in favour of Resource Industries and Air Transportation, while Information Technologies and Surface Transportation have declined from last year.



* *Ratings as at December 31, 2001.*

Five counterparties comprising the Corporation's largest commercial exposure balances collectively represent $5,302 million, or 25%, of the total performing commercial exposure. Of these five, two are within the Surface Transportation sector, comprising $2,694 million, or 13%. The remaining three counterparties are within the Air Transportation sector, comprising $2,608 million, or 12%.

The ratio of below investment grade loans to total commercial exposure has increased significantly for loans in the Air Transportation sector in 2001. This was the result of numerous credit downgrades in the fourth quarter of 2001, reflecting both the financial difficulty this sector is experiencing and the increase in total exposure.

Commercial exposure in the Information Technologies sector has declined 12% from last year, reflecting the impairment and contraction experienced in this sector. Impairment totaled $318 million in Information Technologies for 2001 (2000 – nil) while loans signing volume totaled $1,758 million (2000 – $2,646 million).

($ in millions)	Gross Receivable	Undisbursed Commitments	Total Exposure	2001	Gross Receivable	Undisbursed Commitments	Total Exposure	2000
			$	%			$	%
Resource Industries	5,059	1,585	6,644	32	3,804	1,133	4,937	29
Air Transportation	5,648	1,210	6,858	33	4,226	336	4,562	26
Information Technologies	3,175	669	3,844	18	3,183	1,176	4,359	25
Surface Transportation	3,461	244	3,705	17	3,169	373	3,542	20
Financial Institutions	3	–	3	–	3	–	3	–
Total	$17,346	$3,708	$21,054	100	$14,385	$3,018	$17,403	100

Performing Sovereign Loans

The Corporation has the following sovereign risk concentrations for its performing gross loans receivable:

($ in millions)	Gross Receivable	Undisbursed Commitments	Total Exposure	2001		Gross Receivable	Undisbursed Commitments	Total Exposure	2000
			$	%				$	%
China	1,053	510	1,563	21	China	1,066	643	1,709	21
Canada	1,200	275	1,475	20	Canada	879	552	1,431	18
Peru	616	–	616	8	Peru	630	–	630	8
Algeria	519	23	542	7	Algeria	544	33	577	7
Indonesia	527	–	527	7	Venezuela	425	123	548	6
Other	2,315	395	2,710	37	Other	2,771	436	3,207	40
Total	$6,230	$1,203	$7,433	100	Total	$6,315	$1,787	$8,102	100

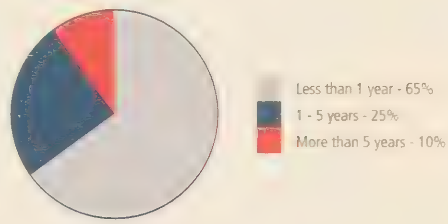
The sovereign portfolio as a whole has decreased from 2000 by 8%. Generally, the level of exposure has not increased for sovereign counterparties.

The increased global demand for commercial financing is evidenced in the decrease in the Corporation's sovereign loan portfolio. As older sovereign loans are repaid, fewer new loans are signed to replace them. In 2001, 1% of signing volume was to sovereign borrowers, compared with 4% in 2000 and 10% in 1999.

Concentration of Exposure – Insurance Portfolio

Insurance Policies and Guarantees Outstanding

($ in millions)	2001	2000
Short-term	7,589	7,405
Medium-term	8,256	6,997
Total	$15,845	$14,402



At December 31, 2001, policies with terms of less than one year comprised 65% of the total exposure compared to 57% in 2000.

Short-term Program

During 2001, the short-term program supported 4,778 customers. In terms of total insured volume, the top five customers represented 16% of the total 2001 insured volume (2000 – 15%). The largest number of buyers in terms of aggregate credit authorizations is within the $1,000 to $500,000 range and has remained relatively unchanged from 2000 levels in terms of overall concentration.

The following table shows the number of foreign buyers and the respective exposure for the year classified by exposure size within the short-term portfolio:

	2001		2000	
*$ Value of Foreign Exposure** *($ in thousands)*	Total Number of Foreign Buyers	Exposure *($ in millions)*	Total Number of Foreign Buyers	Exposure *($ in millions)*
1 – 500	43,227	5,337	39,684	4,699
501 – 2,000	3,890	3,714	3,549	3,395
2,001 – 5,000	987	3,128	897	2,788
5,001 – 10,000	343	2,394	309	2,166
10,001 and over	297	7,848	235	5,247
Total	48,744	$22,421	44,674	$18,295

** Excludes buyers located in Canada as most of the Corporation's domestic business is now being underwritten by London Guarantee Insurance Company.*

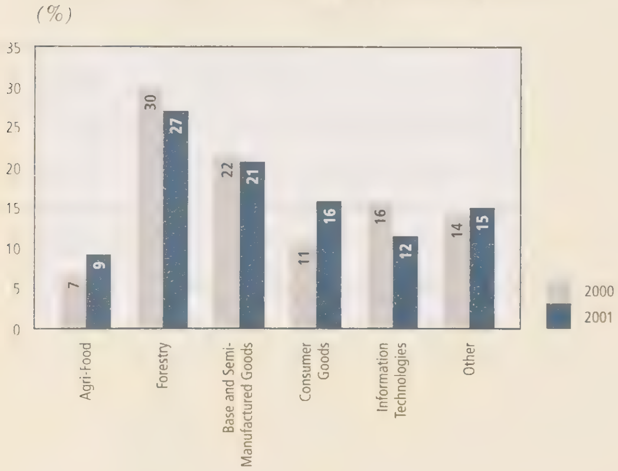
The largest concentrations within the short-term program are in the following countries:

($ in millions)	2001			2000	
	$	%		$	%
U.S.	4,272	56	U.S.	3,210	43
Brazil	301	4	Canada	856	12
Japan	261	3	Brazil	362	5
Germany	223	3	Iran	267	4
Canada	203	3	Japan	259	3
Other*	2,329	31	Other*	2,451	33
Total	$7,589	100	Total	$7,405	100

** Includes 138 countries with concentrations ranging from $0.001 million to $199 million (2000 – 138 countries ranging from $0.001 million to $213 million).*

Exposure in Canada has declined in 2001 due to domestic transactions now being underwritten by London Guarantee Insurance Company.

The insurance policies' liability in terms of industry concentration are as follows:



Medium-term Insurance Program and Guarantees

During 2001, 432 customers were supported in the medium-term program (2000 – 381). The top five customers in terms of insurance policies and guarantees outstanding represented 62% of the 2001 medium-term insurance policies and guarantees outstanding (2000 – 59%). The largest exposure within the top five customers is $3,080 million. The five largest policies and loan guarantees as at December 31, 2001, represent 26% (2000 – 25%) of the total medium-term policies and guarantees outstanding.

As at December 31, 2001, the medium-term insurance policies and guarantees outstanding portfolio comprised 1,911 transactions in 129 countries (2000 – 1,688 transactions in 124 countries) with an average exposure of $4.3 million (2000 – $4.1 million).

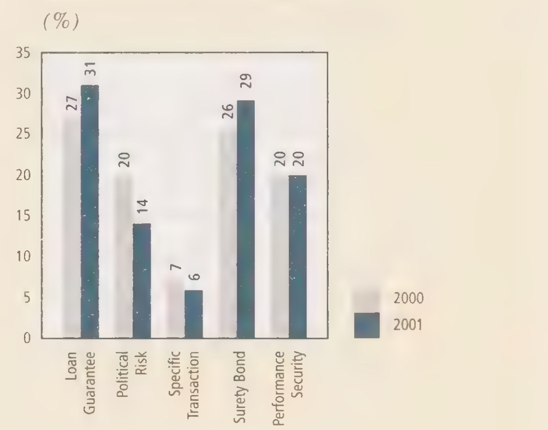
The largest insurance policies and guarantees outstanding in terms of where the risk resides within the medium-term portfolio are in the following countries:

($ in millions)	2001			2000	
	$	%		$	%
U.S.	2,542	31	Canada	1,884	27
Canada	2,518	30	U.S.	1,589	23
Mexico	328	4	Peru	308	4
Brazil	324	4	Brazil	305	4
China	238	3	Mexico	246	4
Other *	2,306	28	Other*	2,665	38
Total	$8,256	100	Total	$6,997	100

** Includes 123 countries with concentrations ranging from $0.012 million to $222 million (2000 – 119 countries ranging from $0.004 million to $223 million).*

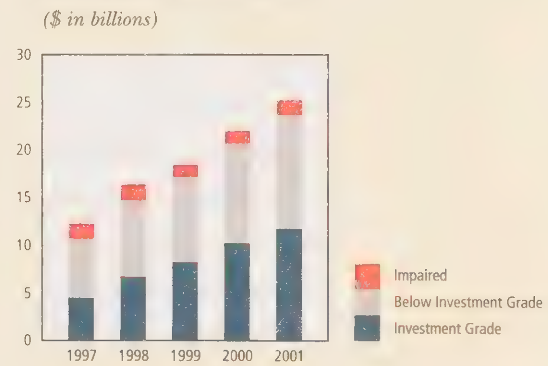
The total concentration in the United States for 2001 is $2,542 million of which $2,147 million, or 84%, represents guarantees to support loan agreements (2000 – $1,517 million, or 95%). Exposure in Canada is made up largely ($2,364 million) of surety bond insurance (2000 – $1,782 million), 54% of which is to support exports to the United States (2000 – 57%).

Total medium-term exposure has increased by $1,259 million or 18% over 2000 results. Surety bond and performance security program exposures have increased by $584 million over 2000 results, while loan guarantees exposure have increased by $660 million.



Credit Quality – Loans

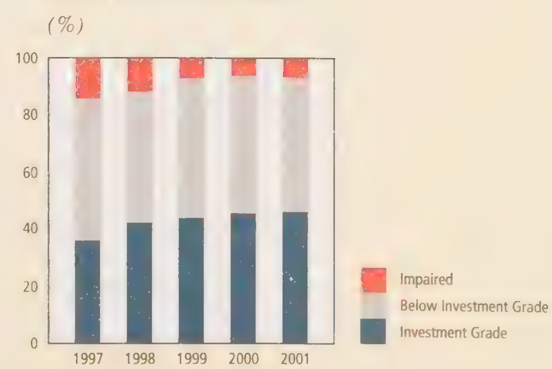
The performing gross loans receivable grew by 14% in 2001 to $23,576 million from the 2000 level of $20,700 million. The major factor contributing to this increase is the continued growth in commercial signing volume, with sovereign signings remaining close to 2000 levels. Risk concentration remains comparable to 2000, with the largest increase attributable to investment grade loans.



Impaired Loans

Impaired loans represent loans for which the Corporation no longer has reasonable assurance that the full amount of principal and interest will be collected on a timely basis in accordance with the terms of the loan agreement. Impaired loans as a percentage of total gross loans receivable increased from 6% in 2000 to 6.5% in 2001. This is lower than the average impaired loans of 9% over the last five years.

In 2001, loans totaling $482 million were made impaired. These were composed of 26 commercial loans in the following countries: United States ($260 million), Indonesia ($63 million), Australia ($53 million), Philippines ($52 million), and others ($54 million). During the year, one commercial loan in Canada totaling $39 million and loans to Bosnia-Herzegovina totaling $5 million were reclassified from impaired to performing.



Impaired loans to four commercial borrowers totaling $191 million were written off against the allowance for loan losses. These loans were fully provided for by the allowance for loan losses and $165 million of these loans had been made impaired in 2001.

The largest concentrations of gross loans receivable for impaired loans are listed in the following table:

($ in millions)			2001				2000
	Gross Loans Receivable	Non-accrued Capitalized Interest	Loans Receivable		Gross Loans Receivable	Non-accrued Capitalized Interest	Loans Receivable
Sovereign							
Cameroon	**405**	**323**	**82**	Cameroon	411	262	149
Ivory Coast	**264**	**183**	**81**	Ivory Coast	249	172	77
Russia	**138**	**60**	**78**	Russia	119	47	72
Yugoslavia*	**122**	**–**	**122**	Pakistan	78	–	78
Pakistan	**95**	**16**	**79**	Congo	54	41	13
Other	**296**	**160**	**136**	Other	255	88	167
Subtotal	**1,320**	**742**	**578**		1,166	610	556
Commercial							
United States	**107**	**–**	**107**	Yugoslavia*	91	–	91
Indonesia	**61**	**–**	**61**	Canada	38	–	38
Australia	**54**	**–**	**54**	France	25	6	19
Philippines	**53**	**–**	**53**	United States	3	–	3
Egypt	**27**	**–**	**27**				
Other	**28**	**–**	**28**				
Subtotal	**330**	**–**	**330**		157	6	151
Total Impaired	**1,650**	**742**	**908**		1,323	616	707
Less: Specific Allowance			**370**				431
Net Impaired Loans Receivable			**$538**				$276

** Yugoslavia was reclassified as sovereign debt in 2001 because a rescheduling through the Paris Club is anticipated in 2002.*

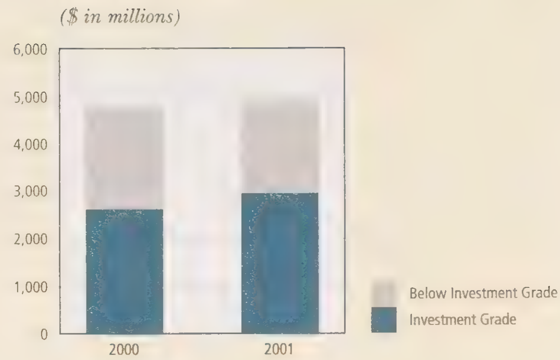
Payments received from the Government of Canada for debt relief for sovereign impaired loans totaled $13 million in 2001 (2000 – $12 million) with $11 million of the total relating to Honduras. These amounts are not included as receipts from borrower countries in the table below.

The following cash flows pertain to impaired loan debtors and represent, in the case of non-commercial receipts, the long-term efforts of multilateral rescheduling arrangements through the Paris Club. The largest receipts for impaired loans including contractual principal and interest from borrowers were as noted:

($ in millions)	2001		2000
Sovereign		**Sovereign**	
Russia	**11**	Cameroon	9
Gabon	**10**	Yugoslavia	7
Other	**8**	Other	1
Subtotal	**29**	Subtotal	17
Commercial	**5**	**Commercial**	35
Total	**$34**	Total	$52

Loan Commitments

The amount of loan commitments has remained relatively unchanged from 2000. In total, loan commitments have increased by 2%. The mix in credit quality has shifted in favour of investment grade. In 2001, investment grade loans totaled 60% of the total compared to 54% last year, which is reflective of higher loan signings for investment grade loans.

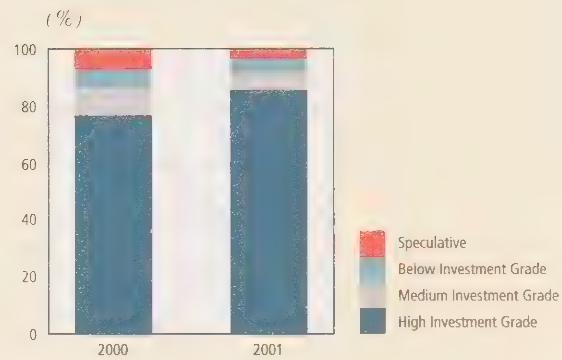


Credit Quality – Insurance

Short-Term

Within the short-term programs, the comparative spread in terms of country risk classification has increased in the high investment grade category, which represents $6,454 million or 85% of total short-term contingent liabilities. This is mainly due to a 33% increase in declared exposure in the United States.

The decrease in speculative grade concentration in 2001 within the short-term programs is mainly the result of decreased irrevocable letters of credit declared exposure in Turkey.

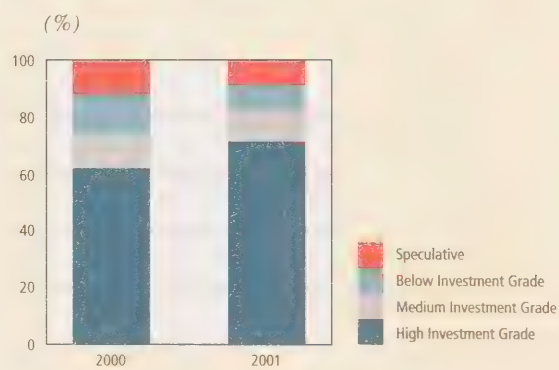


Medium-Term

Within the medium-term programs, there was a 10% increase in high investment grade concentration in 2001 compared with 2000 levels, as well as a 6% decrease in below investment grade concentration in 2001 over 2000 concentrations.

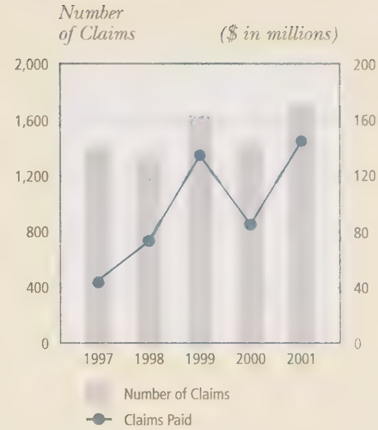
The increase in high investment grade concentration in 2001 was partly the result of an overall increase of 34% in exposure in Canada, due to the increased use of surety bond insurance in support of exporters. In addition there was a 60% increase in exposure in the United States.

The decrease in below investment grade concentration in 2001 within the medium-term programs was the result of decreased concentrations in Peru due to higher reinsurance.



Claims Experience

($ in millions)	2001	2000
Claims paid	144	84
Claims recovered	51	30
Net claims	$93	$54



In 2001, the Corporation paid 1,712 claims in 66 countries. During the same period in 2000, the Corporation paid 1,427 claims in 73 countries.

In 2001, claim payments were significantly impacted by global economic events and more specifically by the financial problems encountered in the pulp & paper industry, which yielded claim payments of $51 million. As well, claims in the United States (in part stemming from the record number of bankruptcies) resulted in an $18 million increase over the amounts recorded in 2000 ($46 million in 2001 compared to $28 million in 2000).

There was a 71% increase in the dollar value of claim payments to $144 million in 2001 and an increase of 20% in the number of claims paid from 2000.

The claims paid as a percentage of insurance policies outstanding over the past five years has averaged 0.87%.

($ in millions)	2001			2000		
	Claims Paid	Number of Claims Paid	Claims Recovered	Claims Paid	Number of Claims Paid	Claims Recovered
$0 – $100,000	24	1,534	15	19	1,304	28
$100,001 – $1 million	43	163	1	28	112	1
Over $1 million	77	15	35	37	11	1
Total	$144	1,712	$51	$84	1,427	$30

Due to the number and value of larger claim payments (over $1 million) paid in 2001, the average amount paid per claim increased to $84 thousand from $59 thousand in 2000.

($ in millions)	2001					2000				
Geographic Market	Default	Insolvency	Expropriation	Other	Total	Default	Insolvency	Expropriation	Other	Total
Middle East/Africa	2	–	–	1	3	1	–	–	–	1
Asia/Pacific	10	–	9	–	19	11	1	–	1	13
Europe	5	2	–	2	9	5	3	–	–	8
South America/ Central America	10	3	–	–	13	19	–	–	1	20
North America/ Caribbean*	83	17	–	–	100	28	10	–	4	42
Total	$110	$22	$9	$3	$144	$64	$14	–	$6	$84

** Includes Mexico*

Default Risk

Default is defined as the failure of the buyer to pay by the due date all or any part of the gross invoice value of goods delivered to and accepted by the buyer.

The decrease in claim payments in South America/Central America for default risk is mainly due to a decrease in claim payments for losses in Ecuador ($14 million) offset by an increase in payments for losses in Peru ($2 million) and Venezuela ($3 million).

Default claim payments on behalf of losses in Virgin Islands (British) ($45 million) and an increase in payments for losses in the United States ($15 million) offset by a decrease in payments for losses in Canada ($3 million) and Mexico ($2 million) account for most of the increase in claim payments in North America/Caribbean. The losses in Virgin Islands (British) relates to financial difficulties of a parent company based in Singapore.

Insolvency Risk

Insolvency of the customer occurs when the customer has reorganized his financial affairs under the bankruptcy or insolvency laws of his country.

The $3 million increase from 2000 in insolvency claims paid in South America/Central America is largely due to an increase in payments for losses in Argentina ($3 million).

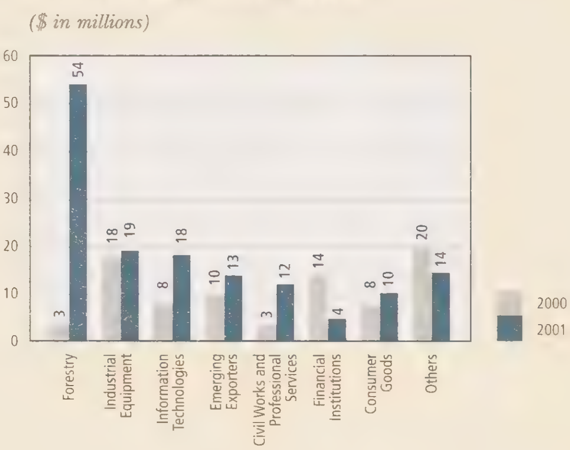
The increase in insolvency claims paid within North America/Caribbean is mainly due to increases in the United States ($4 million) and Canada ($3 million).

Expropriation Risk

Expropriation is described as direct or indirect action(s) or omission(s), taken, authorized or condoned by a foreign government which have the result of depriving an insured of the benefits, use or control of its asset or investment.

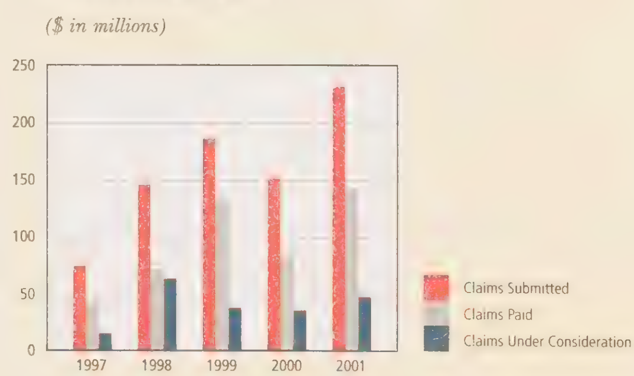
The $9 million in claim payments made in Asia/Pacific for expropriation risk in 2001 is due to losses in Pakistan.

The majority of the claims paid in 2001 in the Forestry sector were due to losses resulting from financial difficulties of a Singapore based forestry conglomerate ($45 million) and losses in China ($2 million). In the Information Technologies sector, an increase of claim payments of $14 million were made for losses in the United States. Claim payments for losses in Pakistan ($9 million) were made in the Civil Works and Professional Services sector in 2001. Within the Financial Institutions industry sector, the claims paid in 2000 were mainly due to losses in Ecuador ($13 million).



At the end of 2001, the value of the claims requests that were still under consideration was $48 million (2000 – $36 million). The five largest concentrations are related to claims pending for losses in the United States ($20 million), Germany ($8 million), Belgium ($6 million), Argentina ($2 million) and Greece ($2 million).

The value of claims submitted has increased from $151 million in 2000 to $232 million in 2001. The increase from year to year is mainly due to growth in most insurance programs. The top five countries with the largest claims submitted in 2001 were the United States ($93 million), Virgin Islands (British) ($51 million), Canada ($11 million), Germany ($11 million) and China ($9 million).



Credit Quality – Investments and Derivative Financial Instruments

Treasury credit risk is the credit risk associated with EDC's holdings of interest bearing deposits, marketable securities, investments and derivative financial instruments. EDC uses derivative financial instruments to convert market risk to credit risk. For interest-bearing deposits, marketable securities and investments, the potential

exposure is represented by the carrying value of the financial instrument. The potential loss on derivative financial instruments is the replacement cost of contracts that have a positive fair value. EDC's activities with respect to derivative financial instruments will be discussed further in the market risk section. The Corporation's risk management policies limit counterparty credit exposures by credit rating and term. Credit exposures are evaluated on an ongoing basis. Changes in counterparty creditworthiness and market movements may cause limits to be exceeded and in such cases management will determine appropriate action.

The following table provides a breakdown, by credit rating, of EDC's treasury credit risk exposure.

($ in millions)

	Remaining Term to Maturity					
Credit Rating*	Under 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	2001 Total	2000 Total
Aaa	949	25	–	11	985	444
Aa1	253	95	85	63	496	763
Aa2	110	17	8	42	177	445
Aa3	527	157	36	10	730	896
A1	203	–	–	–	203	88
A2	15	42	–	–	57	25
Total	$2,057	$336	$129	$126	$2,648	$2,661

** Moody's long-term rating*

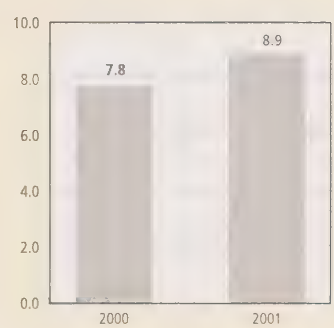
Allowance for Losses on Loans, Loan Commitments and Guarantees

EDC's loan loss provision as a percentage of total exposure has increased to 8.9% in 2001. The increase of 1.1% from 2000 was primarily caused by the economic downturn experienced in global markets. Numerous airline downgrades and financial uncertainty in the aerospace sector were primarily responsible for the increase in provisioning. As well, new impaired loans of $482 million caused an increase in provisioning, with telecom financing representing 66% of the total impairment.

In 2001, EDC undertook a review of its general loan allowance in order to update the methodology used to reflect current best practices. This review was conducted jointly by EDC and the Office of the Auditor General. This work included a review of the general allowance methodologies of several Canadian and US financial institutions as well as interviews with Canadian and US regulatory authorities. The result was the adoption of a new methodology for estimating the losses on loans and guarantees which is better aligned with industry best practice and provides greater specificity in the determination of the general allowance. An independent national accounting firm with significant experience in reviewing loan loss allowance methodologies of Canadian Financial Institutions conducted a review of the new methodology and issued a report in support of EDC's general allowance methodology. After reviewing the new methodology with the Audit Committee of the Board of Directors and obtaining their support, management implemented it during the fourth quarter of 2001. The change in methodology represents a change in estimate of the amount of losses on loans and prior periods have not been restated. The net overall impact to provisioning resulting from this change in estimate was not material. In addition, the new methodology uses risk ratings aligned to EDC's internal credit risk rating policy, adopted by the Board of Directors in December 1999.

The new provisioning methodology introduces various components of the total allowance which allow EDC to adequately provide for increased risks to specific counterparties, industries, and countries. These are represented by the concentration, country overlay, and industry overlay components, respectively, and are explained in more detail in the following sections.

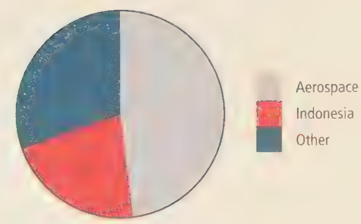
(%)



Concentration Allowance

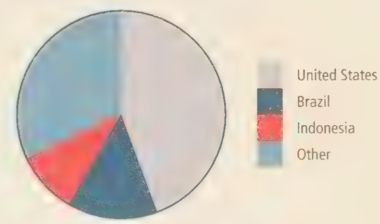
A concentration component was added to adequately provision for sovereign and commercial counterparties whose level of exposure is deemed by management to represent an increased amount of risk. At December 31, a counterparty whose exposure exceeds 10% of shareholder's equity will attract a concentration component calculated on the portion of exposure over that threshold. The allowance on this portion of exposure is calculated at the base allowance rate for that counterparty. The threshold is set based on external benchmarks for commercial chartered banks.

Indonesia represents 61% of the sovereign concentration allowance, while counterparties in the aerospace industry comprise 75% of the commercial concentration allowance.



Country Overlay

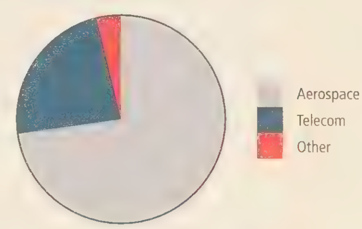
A country overlay component is added for exposure to countries with negative outlooks that are experiencing economic downturns or recession. For countries with negative outlooks, the full impact of downturns or economic uncertainty are often not reflected in current credit ratings. This is due to timing issues for financial uncertainties that are often not reflected in credit ratings for up to two years after a downturn begins. The amount of overlay added is directly related to the amount of exposure, both sovereign and commercial, in every country with a negative outlook. An incremental allowance is added based on the current allowance and probability of a downgrade. The United States, Brazil, and Indonesia collectively represent 68% of the total country overlay allowance.



Industry Overlay

An industry overlay component is added to reflect the risk of economic downturns being experienced by companies in certain industries that are on credit watch or have negative outlooks. It is believed that companies in these industries have a greater risk than is reflected in current credit ratings. This is due to timing issues for financial difficulties that may not be reflected in current financial results, or for companies that are expected to be downgraded in the near future. The amount of overlay added is directly related to the amount of exposure to each company and the probability of a subsequent downgrade. Based on the probability of the downgrade and the likely credit rating, an appropriate amount of incremental allowance is added.

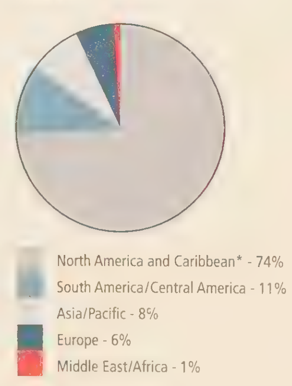
The aerospace industry comprises 73% of the total industry overlay and reflects the current financial uncertainty that many aerospace concerns are experiencing, which may result in further credit rating downgrades.



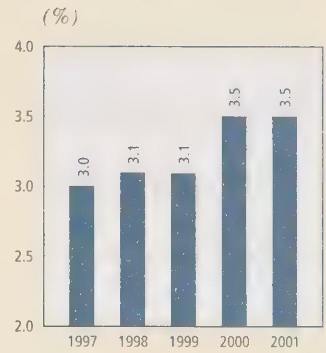
Allowance for Claims on Insurance

As at December 31, 2001, the allowance for claims on insurance is $464 million, an increase of $25 million or 6% over the 2000 allowance of $439 million. The increase in the allowance for claims on insurance is primarily attributable to the continued growth in the medium-term insurance portfolio. During 2001, $83 million was charged to the income statement for the provision for credit losses relating to claims on insurance. This was offset by charges to the allowance of $74 million, due to write-offs of recoverable claims paid and claims expenses of $7 million. The allowance also increased by $23 million due to foreign exchange fluctuation.

Eighty per cent of the total unrecoverable portion of claims paid amount was attributable to short-term insurance claims.



The allowance as a percentage of insurance policies outstanding has remained within a range of 3.0% to 3.5% averaging 3.2% over the last five years. The allowance is based on an actuarial valuation of the insurance policy and claim liabilities. The actuarial valuation uses simulation techniques and is based on assumptions (frequency of claim and severity of loss) relevant for each insurance program separately and is derived from the Corporation's own experience. Moreover, the allowance includes a provision for adverse deviation such that it will be sufficient to cover all expected losses 19 times out of 20. This year's increase in the allowance results from growth in most insurance programs as well as a corresponding growth in the claims under consideration and incurred but not reported claims.



Capitalization

The gross assets of the Corporation are $28.2 billion (2000 – $25.1 billion), which are supported by shareholder's equity and allowances of $6.0 billion (2000 – $5.3 billion). At this level of capitalization, 21% of assets do not require external debt financing (2000 – 21%).

The following table shows the capitalization of EDC over the last five years:

($ in millions)	**2001**	2000	1999	1998	1997
Shareholder's equity:					
Capital	**983**	983	983	983	983
Retained earnings	**1,067**	1,009	815	697	562
Subtotal	**2,050**	1,992	1,798	1,680	1,545
Allowances	**3,964**	3,289	2,798	2,516	1,984
Total capitalization	**$6,014**	$5,281	$4,596	$4,196	$3,529

Operational, Organizational and Business Risks

Operational risk is the potential risk of loss from human error, internal control weaknesses and systems deficiencies. Organizational risk is the risk of loss or cost to the company due to the organizational environment (people and skills, incentives, culture and values). Business risk is the potential for loss relating to EDC's external environment or to its relations with stakeholders.

EDC manages and monitors these three types of risk and strives to develop tools and techniques based on best-in-class practice. To manage its operational risks, EDC has policies and procedures in place that establish clear segregation of responsibilities and timely internal reporting to management. To mitigate risks associated with its organizational and business environment, EDC makes use of a broad array of policies, practices, statements of corporate vision and values and business strategies and plans.

Market Risk

Market risk is the likelihood of loss to EDC as a result of movements in interest and foreign exchange rates and the risk that funds will not be available to meet corporate obligations. This risk is mitigated through the management of EDC's asset/liability positions, through the use of derivatives, and through the maintenance of sufficient liquidity.

The Corporation manages its exposure to market risk using limits developed in consultation with the Department of Finance, overseen by the Risk Management Committee of the Board of Directors and approved by the Board of Directors. Capital Markets meets weekly and the Corporation's Finance Group meets bi-weekly to review and discuss market and credit risks and to analyze borrowing requirements. These activities and the asset/liability positions are reported quarterly (or more frequently as required) to EDC's Asset/Liability Management Committee, to its Risk Management Committee of the Board, and to the Board of Directors.

Asset/Liability Management

Asset terms are set to meet the needs of external parties. EDC arranges its liabilities accordingly but must balance the need to match its assets and liabilities with opportunities to obtain sub-LIBOR funding. In doing so, EDC may expose itself to interest rate and foreign exchange risk. These asset/liability gaps are measured against policy limits and reported to senior management on a monthly basis.

Interest Rate Risk

Interest rate risk is the exposure of the Corporation's market value and net interest income to adverse movements in interest rates. Interest rate risk exists where there is a mismatch between maturities or interest rate resets between assets and liabilities.

Foreign Exchange Risk

Foreign exchange risk is the exposure of the Corporation's net interest income and market value to adverse movements in foreign exchange rates. Foreign exchange risk exists where there is a mismatch between assets and liabilities in any currency.

The table below is an aging distribution of EDC's fixed and floating rate financial instruments as at December 31, 2001. All figures are present values translated into Canadian dollars. Since capital, which bears no interest, is used to fund a portion of the interest-earning assets of the Corporation, there will always be a sensitivity to interest rates. EDC has chosen, strategically, to use its capital to fund the longest-term fixed rate assets, therefore its interest rate sensitivity is in the longer-dated fixed rate maturities.

Interest Rate Sensitivity

($ in millions)

	1d-6m	6m-12m	12m-5y	5y-10y	10y-15y	15y+	Total
Assets							
Fixed rate	765	456	3,801	4,077	3,415	976	13,490
Floating rate	13,068	–	–	–	–	–	13,068
Investments	2,757	–	–	–	–	–	2,757
Total	$16,590	$456	$3,801	$4,077	$3,415	$976	$29,315
Liabilities							
Fixed rate	1,004	–	3,163	311	176	89	4,743
Floating rate	12,603	–	–	–	–	–	12,603
Commercial paper	3,952	–	–	–	–	–	3,952
Total	$17,559	–	$3,163	$311	$176	$89	$21,298
Interest rate sensitivity position	(969)	456	638	3,766	3,239	887	8,017
Cumulative position	$(969)	$(513)	$125	$3,891	$7,130	$8,017	

The likelihood of loss to EDC as a result of possible movements in interest and foreign exchange rates is monitored and managed within operational guidelines and Board-approved policies. Market risk is aggregated and managed on an integrated basis. Limits exist for interest rate and foreign exchange rate shock effects in relation to projected net interest income and economic value. Exposures are classified, calculated and limited on a consolidated Canadian dollar equivalent basis, covering EDC's lending, investing, funding and derivative transactions.

EDC continues to improve analytical techniques, information systems and reporting to enhance the evaluation and control of risk. The Market Risk Management Policies are reviewed annually with the Corporation's Board of Directors, and compliance is reviewed quarterly with the Risk Management Committee of the Board of Directors.

Derivatives

EDC uses a variety of derivatives to manage costs, returns and levels of financial risk associated with its funding, investment and risk management activities. EDC's use of derivatives may include, but is not restricted to, currency and interest rate swaps, foreign exchange contracts and equity index swaps. EDC does not use derivatives for speculative purposes, but rather to convert market risk into credit risk.

EDC does not engage in the use of derivatives whose value and financial risks cannot be measured, monitored and managed on a timely basis. The Market Risk Management department formally reviews EDC derivative financial instrument transactions at time of inception, and on an ongoing basis, to provide an independent verification on the valuation of transaction structures, and of associated financial risks.

The use of any new derivative products is reviewed and reported separately by the Market Risk Management department to the Treasurer and the Senior Vice-President and Chief Financial Officer. Financial risks associated with derivatives are controlled and reported as specified in Market Risk Management Policies. EDC's use of derivatives is typically linked to the following activities:

Funding

Derivatives are used to achieve reduced fixed rate or sub-LIBOR floating rate funding costs. An example would be issuing an EDC bond in a foreign currency, on a fixed interest rate basis, and entering into a currency and interest rate swap with a creditworthy counterparty to achieve low-cost floating rate U.S. dollar denominated debt, thereby replacing the foreign currency denominated payment obligations with U.S. dollar denominated obligations. The combination of the bond issue and swap would deliver a more favourable cost of funding than could be achieved using a straight U.S. dollar floating rate bond issue.

Investing

Derivatives are used to maximize yields on investments. For example, rather than invest directly in a three month U.S. dollar treasury bill, EDC may obtain a higher yield by investing in a Japanese yen swapped deposit, where U.S. dollars are converted to yen and invested in a three-month yen deposit. At maturity, the maturing term deposit plus interest is swapped back into U.S. dollars. This structure uses a forward foreign exchange contract to enhance the investment yield.

Risk Management

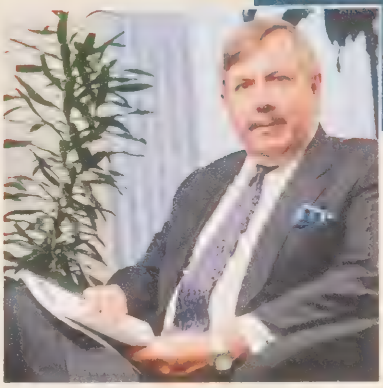
Derivatives are used to hedge risks by diversifying concentrated exposures. For example, EDC might balance the proportion of fixed to floating rate assets in its investment book, using interest rate swaps, in order to diversify interest rate risk.

Liquidity Risk

Liquidity risk is the risk that funds will not be available to meet current and future cash outflow requirements. Pursuant to its risk management policies, EDC must maintain enough liquidity to meet the following six months' net cash outflow requirements without accessing the capital markets (i.e., bond issuance). This is ensured by measuring and reporting to senior management EDC's actual liquidity position against this minimum limit on a monthly basis.

EDC maintains liquidity through a variety of methods:

- **Access to Commercial Paper Markets:** In the course of EDC's normal activities, the Corporation's commercial paper programs provide it with the necessary liquidity to meet its cash requirements on a daily basis. During 2001, the average balance of short-term debt was $3,313 million (2000 – $3,574 million) with a turnover of 17 times (2000 – 15 times).
- **Cash and Marketable Securities:** EDC holds cash and marketable securities to ensure that sufficient liquidity is available, if required, to meet forecasted cash requirements. During 2001, the average balance of cash and marketable securities was $2,840 million (2000 – $3,215 million).
- **Standby Credit Facility:** As a contingency, EDC also maintains a U.S. $2 billion standby revolving credit facility to further ensure its liquidity. To date, it has not been necessary to use this facility.



Peter Allen
Senior Vice-President and Chief Financial Officer

The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied. The integrity and objectivity of the data in these consolidated financial statements are management's responsibility. The consolidated financial statements include some amounts, such as the allowances for losses on loans, the allowance for loan commitments and guarantees and the allowance for claims on insurance, that are necessarily based on management's best estimates and judgment. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the consolidated financial statements.

In support of its responsibility, management maintains financial, management control and information systems and management practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded and that the operations are carried out effectively. The Corporation has an internal audit department whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors of EDC is responsible for the management of the business and activities of the Corporation. In particular, it is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which is composed of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis.

Contracts which, in the opinion of EDC, involve risks in excess of that which the Corporation would normally undertake, may be entered into under the authority of the Minister for International Trade and the Minister of Finance where the Minister for International Trade considers them to be in the national interest. Funds required for such contracts are paid to the Corporation by the Minister of Finance out of the Consolidated Revenue Fund, and funds recovered are remitted to the Consolidated Revenue Fund, net of amounts withheld to cover related administrative expenses. These transactions, which are known as Canada Account transactions, are shown in note 21 to the Corporation's consolidated financial statements, and the responsibility of the Board of Directors for these transactions is limited to the management of the administration thereof by EDC.

The Auditor General of Canada conducts an independent audit, in accordance with generally accepted auditing standards, and expresses her opinion on the consolidated financial statements. Her report is presented on the following page.

A. Ian Gillespie
President and
Chief Executive Officer

Peter Allen
Senior Vice-President and
Chief Financial Officer

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

To the Minister for International Trade

I have audited the consolidated balance sheet of Export Development Canada (formerly Export Development Corporation) as at December 31, 2001 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly-owned subsidiary that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Export Development Act* and regulations and the by-laws of the Corporation and its wholly-owned subsidiary.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
February 8, 2002

Consolidated Balance Sheet

as at December 31, 2001

($ in millions)	2001	2000
Assets		
Cash and Investments		
Cash and cash equivalents	612	104
Marketable securities (note 3)	1,562	2,083
Investments (note 4)	172	170
Accrued interest	9	18
	2,355	2,375
Loans Receivable		
Net loans receivable (notes 5, 6 and 7)	20,826	17,886
Accrued interest and fees	269	344
	21,095	18,230
Other		
Recoverable insurance claims (note 10)	96	74
Derivative related amounts (note 17)	167	253
Other assets	80	58
	343	385
Total Assets	$23,793	$20,990
Liabilities and Shareholder's Equity		
Loans Payable (note 13 and 14)		
Loans payable	19,609	17,583
Accrued interest	415	454
	20,024	18,037
Other Liabilities and Deferred Revenue		
Accounts payable and other credits	131	84
Deferred insurance premiums	20	21
Derivative related amounts (note 17)	516	287
Allowance for loan commitments and guarantees (note 7)	588	130
Allowance for claims on insurance (note 11)	464	439
	1,719	961
Loan Commitments and Contingent Liabilities (notes 8 and 9)		
Shareholder's Equity (note 15)		
Share capital	983	983
Retained earnings	1,067	1,009
	2,050	1,992
Total Liabilities and Shareholder's Equity	$23,793	$20,990

See accompanying notes.

Approved by the Board of Directors

R. Fung
Director

A. Ian Gillespie
Director

Consolidated Statement of Income and Retained Earnings

for the year ended December 31, 2001

($ in millions)	**2001**	2000
Interest income:		
Loans	**1,621**	1,585
Investment portfolio	**127**	197
	1,748	1,782
Interest expense	**934**	1,066
Net Interest Income	**814**	716
Insurance Premiums and Guarantee Fees	**134**	144
Provision for Credit Losses (note 12)	**741**	549
Income after provision for credit losses	**207**	311
Administrative Expenses	**149**	117
Net Income	**58**	194
Retained Earnings		
Beginning of year	**1,009**	815
End of year	**$1,067**	$1,009

See accompanying notes.

Consolidated Statement of Cash Flows

for the year ended December 31, 2001

($ in millions)	2001	2000
Operating Activities		
Net income	58	194
Items not affecting cash and cash equivalents		
Provision for credit losses	741	549
Net increase in accrued interest and fees receivable	(149)	(242)
Net decrease in accrued interest and fees payable	(50)	(237)
Net decrease in derivative related amounts receivable	110	576
Net decrease in derivative related amounts payable	(358)	(220)
Other changes	(90)	(62)
Cash flows from operating activities	262	558
Investing Activities		
Loan disbursements	(8,085)	(7,210)
Loan repayments	6,243	4,434
Decrease in marketable securities	548	421
Increase in investments	(2)	(3)
Cash flows used in investing activities	(1,296)	(2,358)
Financing Activities		
Issue of long-term loans payable	5,398	4,889
Repayment of long-term loans payable	(4,203)	(3,173)
Increase/(decrease) in short-term loans payable	329	(607)
Cash flows from financing activities	1,524	1,109
Effect of exchange rate changes on cash and cash equivalents	18	17
Net increase/(decrease) in cash and cash equivalents	508	(674)
Cash and Cash Equivalents		
Beginning of year	104	778
End of year	$612	$104
Represented by		
Cash	81	65
Treasury bills	531	39
	$612	$104
Supplemental Information		
Cash paid for interest	$1,034	$1,069

See accompanying notes.

1. Corporate Mandate and Activities

Export Development Canada ("the Corporation" or "EDC") was named Export Development Corporation prior to December 21, 2001. The Corporation was established on October 1, 1969 by the *Export Development Act* ("the Act"), a statute of the Parliament of Canada that was last amended effective December 21, 2001. The amendments that came into effect at that time included a change to the Corporation's name to Export Development Canada, a requirement that the Corporation make certain environmental determinations with respect to projects which it supports, an exemption from the application of the *Canadian Environmental Assessment Act*, and other routine amendments. The above amendments concluded the review of the provisions and the operation of the Act. The review had commenced in 1998 as a legal requirement under the Act. The Corporation is an agent of Her Majesty in right of Canada and was established for the purposes of supporting and developing, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities. The Corporation is accountable for its affairs to Parliament through the Minister for International Trade.

EDC incorporated Exinvest Inc. ("the Subsidiary") under the *Canada Business Corporations Act* in 1995. The activities of the Subsidiary have been consolidated with those of the Corporation.

The earnings of the Corporation and its Subsidiary are not subject to the requirements of the *Income Tax Act*.

The Corporation is subject to a limit imposed by the Act on its contingent liability programs. The Act specifies that the Corporation's contingent liabilities in respect of the principal amounts owing under all outstanding arrangements shall at no time exceed the greater of an amount equal to 10 times the authorized capital of the Corporation and $17.5 billion, which latter amount may be varied in an appropriation Act. As at December 31, 2001, the contingent liabilities are $15.8 billion (2000 – $14.4 billion).

EDC is for all purposes an agent of Her Majesty in right of Canada. All obligations under debt instruments issued by the Corporation are obligations of Canada. The Act allows the Corporation to borrow up to a maximum of 15 times the aggregate of its current paid-in capital and the retained earnings determined in accordance with the previous year's audited financial statements. The maximum applicable to December 31, 2001 is $29.9 billion (2000 – $27.0 billion), against which borrowings amounted to $19.6 billion (2000 – $17.6 billion).

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash equivalents represent short-term highly liquid investments that are readily convertible into known amounts of cash and that are subject to an insignificant risk of changes in value. Cash and cash equivalents on EDC's balance sheet comprise cash and treasury bills. Cash flows arising from transactions in a foreign currency are translated at the yearly average exchange rate. As well, investing or financing transactions that do not require the use of cash or cash equivalents are excluded from the statement of cash flows and disclosed elsewhere in the financial statements.

Marketable Securities and Investments

Securities and investments that are being held to maturity are carried at cost. Gains and losses on these securities and investments are recognized in income only when they are realized and the asset is removed from the balance sheet. In the case of a significant and other than temporary loss in the value of a security or investment carried at cost, the security or investment would be written down in value at the time of impairment. Temporary investments are carried at market value. The gains and losses arising from securities carried at market value are included in investment portfolio income.

Net Loans Receivable

Net loans receivable are stated net of non-accrued capitalized interest, deferred loan revenue, and the allowance for losses on loans. Non-accrued capitalized interest represents contractual interest capitalized according to rescheduling agreements with sovereign borrowers during which time the loans are classified as impaired, but not recognized for financial statement purposes. Rescheduled loans are considered performing unless they meet the criteria of impaired loans.

Loan interest is recorded on an accrual basis until such time as management determines that a loan should be classified as impaired. Loans are classified as impaired when circumstances indicate that the Corporation no longer has reasonable assurance that the full amount of principal and interest will be collected on a timely basis in accordance with the terms of the loan agreement. Commercial loans are made impaired when there are payment overdues of 90 days or more, or if the counterparty is in bankruptcy protection. Amounts received for impaired loans are credited to the book value of the loans. No portion of cash received on a loan subsequent to its classification as impaired is recorded as interest income until such time as any specific allowance has been reversed, and it is determined that the loan principal is fully collectible in accordance with the contractual terms of the loan. An impaired loan is restored to a performing basis after a pattern of regular payments has been established, normally three years. When the Corporation restores the impaired loan to an accrual basis, previously non-accrued capitalized interest is recognized over the remaining term of the loan.

Deferred loan revenue, comprised of exposure fees and administration fees, is recognized as interest income and amortized as a yield increment over the term of the related loan.

Measurement Uncertainty

To prepare the Corporation's financial statements in accordance with Canadian generally accepted accounting principles, it is necessary for management to make assumptions and estimates based on information available as at the date of the financial statements. The most material of these estimates are the allowance for losses on loans, loan commitments and guarantees (note 7) and the allowance for claims on insurance (note 11). Management determines the allowances using various assumptions, based on its assessment of the impact of recent events and changes in economic conditions and trends. These estimates are reviewed periodically during the course of the year as required and in detail as at the date of the financial statements. Actual losses on loans and liabilities for contingencies incurred may vary significantly from management's estimates. The uncertainty in the estimation process arises, in part, from the use of historical data to identify and quantify credit deterioration. While historical data may be the most reliable basis available to calculate these amounts, economic events may occur in the near term that render previous assumptions invalid and cause a material change to management's estimates.

The general allowance for losses on loans, loan commitments and guarantees is estimated using historical loan default and recovery rates. For specifically identified impaired loans, recoverable amounts are calculated using the best estimates of the timing and amount of future cash flows for each borrower.

The allowance for claims on insurance is calculated by discounting estimated future net claims less future net premiums, based on assumptions consistent with the Corporation's past experience. Additional amounts are provided for possible adverse deviation from best estimate assumptions. While these amounts vary with the degree of uncertainty inherent in each program and with the homogeneity of policies (size and term) within each portfolio, the valuation process conforms to the recommendations of the Canadian Institute of Actuaries.

Allowance for Losses on Loans, Loan Commitments and Guarantees

The allowance for losses on loans, loan commitments and guarantees is based on a review of collectibility of all loans to commercial and sovereign borrowers and represents management's best estimate of probable credit losses.

General allowances include probable credit losses for performing loans at the balance sheet date.

In 2001, EDC undertook a review of its general loan allowance in order to update the methodology used to reflect current best practices. This review was conducted jointly by EDC and the Office of the Auditor General. This work included a review of the general allowance methodologies of several Canadian and US financial institutions as well as interviews with Canadian and US regulatory authorities. The information obtained in the review played an important role in assisting EDC management with the development and the adoption of a new methodology for estimating the losses on loans, loan commitments and guarantees which is better aligned with industry best practice and provides greater specificity in the determination of the general allowance. An independent national accounting firm with significant experience in reviewing loan loss allowance methodologies of Canadian Financial Institutions conducted a review of the new methodology and issued a report in support of EDC's general allowance methodology. After reviewing the new methodology with the Audit Committee of the Board of Directors and obtaining their support, management implemented it during the fourth quarter of 2001. The change in methodology represents a change in estimate of the amount of losses on loans and prior periods have not been restated. The accounting policy to estimate probable credit losses for performing loans at the balance sheet date remains unchanged. The new methodology resulted in three changes in the estimate of the allowance. New loss rates were applied to redefined portfolio segments, the basis of the allowance was changed to include commitments, and market overlays and concentration allowances were introduced. All of these changes are discussed in more detail below.

Under this new methodology, EDC classifies its performing loan assets and loan guarantees into seven categories. The first six categories represent groups of performing loans that share the same credit rating. The Corporation categorizes its performing commercial and sovereign loans using a rating system of 1 to 6 (AA grade to C grade), then establishes an appropriate general allowance based on expected credit losses for each performing risk category. The seventh category represents loan assets that have been designated as watchlist items, which require a higher degree of monitoring and loan allowance. These seven categories, as well as the counterparty ratings, are consistent with the categorization and ratings used by EDC's credit risk management framework. These categories are further segregated by type of exposure, country of risk, and collateral type. Loss rates are determined for each category based on estimates of default rates and loss severity. Default rates are based on the average of Moody's and Standard and Poors' default tables. Loss severity is determined based on EDC's historical loan loss rates. These rates are then applied to the segregated categories to form the general allowance.

To provide for probable losses arising from undisbursed loan commitments (which includes letters of offer), management also maintains an allowance for loan commitments using a methodology similar to that used for the loan portfolio, factored to provide for the estimated usage rate of the commitment. The allowance for loan commitments is reported as a liability with the allowance for guarantees.

An additional allowance amount, called a market overlay, is provided for those countries and industries which are currently experiencing downward trends. This overlay is needed because of the time delay that exists between market events and announcement of credit rating changes.

EDC has significant single name counterparty concentrations. These concentrations increase the risk profile of the portfolio, and accordingly, a concentration allowance is established for counterparties whose exposure is deemed by management to represent an increased amount of risk. At December 31, 2001, this level was assessed at 10% of shareholder's equity.

Specific allowances are established on an individual loan basis to recognize credit losses. When a loan is considered impaired, the carrying value of the loan is reduced to its estimated realizable value using appropriate market values. When market values are not available, the estimated realizable value is determined by discounting expected cash flows at rates inherent in the loan. The amount of initial impairment and any subsequent changes due to the re-evaluation of estimated future cash flows are recorded through the provision for credit losses as an adjustment to the specific allowance for impaired loans.

Recoverable Insurance Claims
Recoverable insurance claim payments are recorded at estimated recoverable values. Subsequent net gains or losses on recovery are credited or charged to the allowance for claims on insurance when recoverable values are re-estimated.

Allowance for Claims on Insurance
The allowance for claims on insurance is based on an actuarial review of net loss experience and potential net losses and represents management's best estimate of the net present value of the liability under existing policies. The related provision is recorded through the provision for credit losses.

Insurance Premiums
For short-term insurance policies, premiums are taken into income at the commencement of coverage. Premiums on other export insurance policies are taken into income using methods that generally reflect the exposures over the terms of the policies and are amortized over the life of the policies on a straight line basis. Reinsurance premiums and recoveries on losses incurred are recorded as reductions of the respective income and balance sheet accounts. Unearned premiums on insurance transferred to reinsurers and estimates of amounts recoverable from reinsurers on unpaid claims are deducted from deferred premiums and recoverable claims respectively.

Derivative Financial Instruments
The Corporation uses a variety of derivative financial instruments to manage operating exposures such as foreign exchange fluctuations and changes in interest rates. These derivative financial instruments are designated and effective as hedges. These contracts are carried on an accrual basis. Premiums paid or discounts received on these instruments are deferred and amortized over the life of the contract. Net receipts or payments are recognized in income on an accrual basis in the same period and the same financial statement category to which the contract is related. Where netting agreements exist, principal and accrued interest on contracts hedging long-term debt or marketable securities are aggregated by contract. Resulting receivable balances are recognized in other assets and resulting payable balances are recognized in other liabilities and deferred revenue. Derivative financial instruments hedging short-term loans payable are recognized in other assets or other liabilities and deferred revenue, according to their nature.

Translation of Foreign Currency

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the end of the year. Income and expenses are translated at monthly average exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are included with interest expense.

Interest Expense

Interest expense includes expenses of commercial paper, bonds, derivative financial instruments, the amortization of debt discount and issue expenses, and foreign exchange gains and losses. Gains or losses incurred when the Corporation repurchases its bonds, and unwinds any swaps related to those bonds, are either taken into income at the time of the transaction, or deferred and amortized over the life of a replacement debt issue, should one be issued.

Employee Benefits

The Corporation maintains a defined benefit pension plan to provide retirement benefits to its employees. Pension costs are actuarially determined using the projected benefit method pro rated on services and management's best estimate assumptions. The latest valuation was completed by an independent actuary as at December 31, 2001. The discount rate used to determine the accrued benefit obligation was based on market rates for long-term high-quality bonds. Pension fund assets are valued at fair value for the purpose of calculating the expected return on plan assets.

The net pension plan expense consists of the actuarially determined pension benefits for the current year's service, imputed interest on projected pension obligations net of interest earned on plan assets and the amortization of actuarial gains or losses and other items over the average remaining service period of active employees expected to receive benefits under the plan. Actuarial gains or losses are amortized only if the net actuarial gain or loss at the beginning of the year is in excess of 10% of the greater of the accrued benefit obligation and the fair value of plan assets.

The cumulative difference between the pension expense and funding contributions is included in accounts payable and other credits.

The Corporation also provides other non-pension post-retirement benefits for employees including a retiring allowance plan and life insurance and health and dental care benefits. The cost of these benefits is accrued for as earned by the employees and is actuarially determined in a manner consistent with the method used for the pension benefits.

Adoption in fiscal 2000 of the CICA's new standard for recording employee future benefits resulted in a transitional obligation with respect to the non-pension post-retirement benefit plans. The transitional obligations with respect to the retiring allowance plan and the other post-retirement benefit plans are being amortized into income over 14 and 20 years respectively.

3. Marketable Securities

The Corporation maintains liquidity sufficient to meet general operating requirements, to maintain stability in the short-term borrowing program and to provide flexibility in achieving corporate objectives. In order to meet these varied needs, marketable securities are held in either the investment portfolio or the temporary investment portfolio.

Securities in the investment portfolio are held for liquidity as well as for the longer term. Temporary investments will either mature or be sold within a year. Credit exposure related to securities held in the investment portfolio and the temporary investment portfolio is represented by their carrying value.

($ in millions)	2001			2000
	Portfolio			
Issued or guaranteed by:	Investments	Temporary Investments	Total	Total
Canadian government *	284	–	284	397
Corporate	204	297	501	1,030
Financial institutions	543	224	767	641
Other sovereign	10	–	10	15
Total Marketable Securities	$1,041	$521	$1,562	$2,083

** Canadian government includes federal, provincial, and municipal governments and Crown corporations.*

The table below shows yields on EDC's marketable securities and how derivative financial instruments have been used to manage interest rate and foreign currency exposures of the Corporation's investment portfolio.

($ in millions)				2001	2000
	Remaining Term to Maturity*				
	Under 1 Year	1 to 3 Years	Over 3 Years	Total	Total
Investment portfolio					
Fixed rate securities	172	136	115	423	521
Swap contracts	(96)	(65)	(32)	(193)	(172)
Subtotal	76	71	83	230	349
*Yield to maturity %**	*5.72*	*5.19*	*4.64*	*4.82*	*5.92*
Floating rate securities	498	87	33	618	1,232
Swap contracts	101	68	30	199	162
Subtotal	599	155	63	817	1,394
*Yield to reset %**	*2.22*	*2.28*	*2.26*	*2.24*	*6.38*
Total investment portfolio	675	226	146	1,047	1,743
Temporary investments					
Floating rate securities	521	–	–	521	330
Spot yield %				*2.13*	*5.73*
Value at purchase				*519*	*329*
Total	$1,196	$226	$146	$1,568	$2,073

** Refers to yield and term to maturity for fixed rate investments, and yield and term to reset for floating rate investments.*

Credit exposure for swap contracts is a fraction of the notional amount of the instruments shown above, and is represented by the replacement cost of those contracts. Credit exposure for swap contracts held in the investment portfolio is included as part of note 17.

4. Investments

Investments comprise $127 million (2000 – $121 million) of restricted cash and securities held by EDC's subsidiary Exinvest Inc. and notes issued by Vancouver Port Authority (formerly Vancouver Port Corporation) and the Royal Canadian Mint, totaling $45 million (2000 – $49 million). EDC intends to hold these notes to maturity. The Royal Canadian Mint is a Crown corporation and is related to EDC as a result of common ownership. The investment with the Royal Canadian Mint was transacted at fair value, made on the same terms as those with third parties with similar credit risk, and is recorded at cost.

($ in millions)				2001	2000
	Remaining Term to Maturity*				
	Under 1 Year	1 to 3 Years	Over 3 Years	Total	Total
Fixed rate investments	4	8	33	45	49
Floating rate investments	127	–	–	127	121
Total Investments	131	8	33	$172	$170
*Yield %**	*3.48*	*6.35*	*6.47*	*6.32*	*6.41*

** Refers to yield and term to maturity for fixed rate investments, and yield and term to reset for floating rate investments.*

5. Net Loans Receivable

The following table shows the contractual maturity and related contractual effective yields for gross loans receivable. The yields are computed on a weighted average basis by amount and term. Floating rate yields are expressed as spreads over base rates which consist mainly of LIBOR for U.S. dollars and Prime for Canadian dollars.

($ in millions)	2001					2000				
	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $
Performing:										
Overdue	39	9.44	126	.43	165	47	8.96	59	1.61	106
2001	–	–	–	–	–	1,019	8.40	3,774	1.49	4,793
2002	1,092	7.80	2,801	1.46	3,893	764	8.32	1,382	1.92	2,146
2003	946	7.44	1,624	1.95	2,570	692	8.14	1,268	1.82	1,960
2004	864	7.66	1,547	2.09	2,411	691	7.96	1,127	1.83	1,818
2005	803	7.55	1,374	1.95	2,177	629	7.85	972	1.71	1,601
2006	725	7.47	1,090	1.54	1,815	653	7.74	753	1.80	1,406
2007 – 2011	3,646	7.36	2,477	1.38	6,123	1,930	7.66	1,638	1.11	3,568
2012 and beyond	3,880	7.35	542	1.21	4,422	2,504	7.58	798	.81	3,302
Performing	11,995	7.42	11,581	1.69	23,576	8,929	7.68	11,771	1.49	20,700
Impaired (note 6)	234		1,416		1,650	199		1,124		1,323
Gross loans receivable	$12,229		$12,997		$25,226	$9,128		$12,895		$22,023
Less: Non-accrued capitalized interest on										
Impaired loans (note 6)					742					616
Performing loans *					499					549
Loans receivable					23,985					20,858
Less: Allowance for losses on loans (note 7)					2,892					2,700
Deferred loan revenue					267					272
Net Loans Receivable					$20,826					$17,886

* *Represents the unamortized balance that accrued while the loan was impaired.*

At December 31, 2001, the floating rate performing gross loans receivable are yielding 4.63% (2000 – 8.36%) with an average term to reset of 107 days (2000 – 94 days).

The breakdown of the Corporation's performing gross loans receivable between sovereign and commercial is as follows:

($ in millions)	2001					2000				
	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $
Sovereign	3,241	8.31	2,989	1.23	6,230	3,290	8.44	3,025	1.27	6,315
Commercial	8,754	7.09	8,592	1.85	17,346	5,639	7.36	8,746	1.60	14,385
Total	$11,995	7.42	$11,581	1.69	$23,576	$8,929	7.68	$11,771	1.49	$20,700

The Corporation has significant geographic concentrations in certain countries as outlined below.

($ in millions)	2001		2000		
Country	Performing Gross Loans Receivable	% of Performing Loans	Country	Performing Gross Loans Receivable	% of Performing Loans
United States	10,169	43	United States	8,030	39
Canada	2,201	9	Canada	1,532	7
Mexico	1,322	6	China	1,090	5
China	1,090	5	Mexico	1,031	5
Peru	932	4	Indonesia	963	5
Other	7,862	33	Other	8,054	39
Total	$23,576	100	Total	$20,700	100

In addition, the Corporation has a single counterparty loan receivable of $1,293 million (2000 – $1,433 million) with a ground transportation entity in the United States.

The following reflects the movement of non-accrued capitalized interest during the year:

($ in millions)	2001	2000
Balance at beginning of year	**1,165**	1,182
Capitalized interest	**92**	22
Amortization	**(83)**	(77)
Cash receipts	**7**	5
Foreign exchange	**60**	33
Balance at end of year	**$1,241**	$1,165

6. Impaired Loans Receivable

The Corporation has $1,650 million (2000 – $1,323 million) of impaired gross loans receivable, of which $1,320 million (2000 – $1,166 million) is sovereign and $330 million (2000 – $157 million) is commercial. The following table shows the amount of gross loans receivable, net of non-accrued capitalized interest and the specific allowance, which represents net impaired loans receivable.

($ in millions)	2001	2000
Gross Impaired Loans Receivable		
Sovereign	**1,320**	1,166
Commercial	**330**	157
	1,650	1,323
Less: Non-accrued Capitalized Interest	**742**	616
Specific Allowance (note 7)	**370**	431
Net Impaired Loans Receivable	**$538**	$276

The following reflects the movement in impaired gross loans receivable during the year:

($ in millions)	2001	2000
Balance at beginning of year	**1,323**	1,308
Loans classified as impaired	**482**	95
Loans reinstated to performing	**(44)**	–
Loans written off	**(191)**	(105)
Capitalized interest	**94**	23
Principal repayments	**(15)**	(42)
Receipts from the Government of Canada for sovereign debt relief	**(13)**	(12)
Receivable from the Government of Canada for sovereign debt relief	**(81)**	–
Foreign exchange	**95**	56
Balance at end of year	**$1,650**	$1,323

Impaired loans to three commercial borrowers in the United States totaling $166 million and one commercial loan in France totaling $25 million were written off against the allowance for loan losses. These loans were written off after all collection methods had been exhausted and no further prospect of recovery was likely. Included in the write-offs are loans totaling $165 million which were made impaired in 2001. For the five years ending December 31, 2001, cumulative loan write-offs totaled $314 million, of which 60% occurred in the current year.

During 2001, payments of principal and interest from borrowers for impaired loans were $34 million (2000 – $52 million). These amounts were applied to the book value of the impaired loans and did not affect interest income.

7. Allowance for Losses on Loans, Loan Commitments and Guarantees

The composition of the allowance for losses on loans, loan commitments and guarantees is as follows:

($ in millions)	2001	2000
General allowance		
Base Allowance		
Investment grade exposure	104	329
Non-investment grade exposure	1,819	2,070
Total	1,923	2,399
Exposure Concentration		
Investment grade exposure	60	–
Non-investment grade exposure	466	–
Total	526	–
Allowance Overlays		
Country		–
United States	130	–
Brazil	41	–
Indonesia	28	–
Turkey	19	–
Argentina	19	–
Other	56	–
Total	293	–
Industry		
Aerospace	267	–
Telecom	87	–
Other	14	–
Total	368	–
Total general allowance	3,110	2,399
Specific allowance for impaired loans	370	431
Allowance for Losses on Loans, Loan Commitments and Guarantees	$3,480	$2,830

The classification of the allowance for losses on loans, loan commitments and guarantees is as follows:

($ in millions)	2001	2000
Allowance for loan losses	2,892	2,700
Allowance for loan commitments	521	–
Allowance for loan guarantees	67	130
Total	$3,480	$2,830

The allowance for loan commitments and guarantees is reported as a liability in the financial statements.

During the year, the Corporation revised its estimate for losses on loans under a new general allowance methodology. This has been treated as a change in estimate and prior year amounts have not been restated. While the accounting policy of recording probable credit losses for performing loans remains unchanged, the methodology was revised to more accurately identify these losses. For a description of the new methodology, please refer to the Allowance for Losses on Loans, Loan Commitments and Guarantees section of the Summary of Significant Accounting Policies in note 2.

The change in methodology has caused the base general allowance to decline to $1,923 million from $2,399 million in the prior year. This is mainly due to lower default rates from Moody's Investor Services and shorter average terms to maturity in the loan portfolio, on which the provision rates are derived.

During the year, changes to the allowance for losses on loans, loan commitments and guarantees were as follows:

($ in millions)	2001			2000		
	Specific	**General**	**Total**	Specific	General	Total
Balance at beginning of year	**431**	**2,399**	**2,830**	402	2,037	2,439
Provision for loan losses	**106**	**552**	**658**	110	281	391
Write-offs*	**(191)**	**–**	**(191)**	(105)	–	(105)
Foreign exchange	**24**	**159**	**183**	24	81	105
Balance at end of year	**$370**	**$3,110**	**$3,480**	$431	$2,399	$2,830

* *See note 6 for more information on loan write-offs*

8. Loan Commitments

The Corporation has undisbursed signed loan commitments of $4,938 million (2000 – $4,825 million). Over the next two years, management estimates that the Corporation will disburse 55% of the remaining undisbursed commitments.

The projected disbursement of the signed loan commitments is as follows:

($ in millions)	2001		2000	
Year	**Projected Disbursements**	%	Projected Disbursements	%
2001	**–**	**–**	2,776	58
2002	**2,207**	**45**	451	9
2003	**487**	**10**	391	8
2004 and beyond	**2,244**	**45**	1,207	25
Total	**$4,938**	**100**	$4,825	100

Undisbursed commitments with their locked-in effective yields are outlined in the following table. All yields are computed on a weighted average basis and the spreads over floating interest rates are represented mainly by LIBOR for U.S. dollars.

($ in millions)	2001				2000			
	Fixed $	**Spot Yield %**	**Floating $**	**Spread %**	Fixed $	Spot Yield %	Floating $	Spread %
Sovereign	**988**	**8.27**	**237**	**2.10**	1,539	8.31	258	2.93
Commercial	**930**	**4.06**	**2,783**	**1.99**	65	6.45	2,963	2.26
Total	**$1,918**	**6.23**	**$3,020**	**2.00**	$1,604	8.24	$3,221	2.32

As at December 31, 2001, the Corporation has letters of offer accepted and outstanding of $3,750 million and unallocated, confirmed lines of credit of $690 million.

9. Contingent Liabilities

The Corporation's contingent liabilities include both short-term and medium-term insurance policies and guarantees. The short-term program protects exporters of goods and services trading on credit terms of up to a year against non-payment due to commercial and political risks. Commercial risks covered include buyer insolvency, default, repudiation of goods by buyer and contract cancellation. Political risks covered by EDC are conversion and risk transfer, cancellation of export or import permits, or war-related risks. The medium-term program provides cover for sales on credit terms greater than one year and includes export credits insurance and guarantees, loan guarantees, performance insurance extending cover for risks inherent in performance and bid guarantees, and political risk insurance, which provides political risk protection for equity and other investments abroad.

As at December 31, 2001, the Corporation has insurance policies and guarantees outstanding of $15,845 million (2000 – $14,402 million) which mature as follows:

($ in millions)	**2001**	2000
Short-term program	**7,589**	7,405
Medium-term program		
2001	**–**	1,394
2002	**1,838**	1,119
2003	**3,001**	2,441
2004	**868**	457
2005	**895**	525
2006	**304**	191
2007 – 2011	**494**	505
2012 and beyond	**856**	365
Total	**$15,845**	$14,402

The major concentrations by location of risk are as follows:

($ in millions)		**2001**				2000	
	Short-term	**Medium-term**	**Total**		Short-term	Medium-term	Total
U.S.	**4,272**	**2,542**	**6,814**	U.S.	3,210	1,589	4,799
Canada	**203**	**2,518**	**2,721**	Canada	856	1,884	2,740
Brazil	**301**	**324**	**625**	Brazil	362	305	667
Mexico	**178**	**328**	**506**	Mexico	202	246	448
China	**167**	**238**	**405**	Turkey	195	155	350
Other	**2,468**	**2,306**	**4,774**	Other	2,580	2,818	5,398
Total	**$7,589**	**$8,256**	**$15,845**	Total	$7,405	$6,997	$14,402

Reinsurance of $1,618 million (2000 – $977 million) has been deducted from the insurance policies outstanding.

Reinsurance premiums of $21 million were deducted from total premiums earned for the year ended December 31, 2001 (2000 – $12 million).

The medium-term contingent liability is $8.3 billion (2000 – $7.0 billion), of which $2.6 billion (2000 – $1.9 billion) represents contingent liabilities for loan guarantees.

10. Recoverable Insurance Claims

During the year, changes to the recoverable insurance claims were as follows:

($ in millions)	2001	2000
Balance at beginning of year	74	77
Claims paid	144	84
Claims recovered	(51)	(30)
Recoveries on assets previously written-off	–	2
Re-evaluation of recoverable claims	(74)	(62)
Foreign exchange	3	3
Balance at end of year	$96	$74

Of the $144 million in claim payments made during 2001, 88% were related to the short-term program. The largest concentrations of claim payments and recoveries were in the following countries:

($ in millions)	2001			2000	
	Claims Paid	Claims Recovered		Claims Paid	Claims Recovered
U.S.	46	6	U.S.	28	9
Virgin Islands (British)*	45	34	Ecuador	14	–
Pakistan	9	–	India	9	–
Canada	7	–	Canada	8	1
Argentina	6	–	Mexico	3	1
Other	31	11	Other	22	19
Total	$144	$51	Total	$84	$30

* *Loss relates to financial difficulties of a parent company based in Singapore.*

11. Allowance for Claims on Insurance

During the year, changes to the allowance for claims on insurance were as follows:

($ in millions)	2001	2000
Balance at beginning of year	439	338
Provision for claims on insurance	83	158
Re-evaluation of recoverable claims	(74)	(62)
Claims expense	(7)	(6)
Foreign exchange	23	11
Balance at end of year	$464	$439

12. Provision for Credit Losses

The composition of the provision for credit losses is as follows:

($ in millions)	**2001**	2000
Provision for losses on loans	**208**	381
Provision for claims on insurance	**83**	158
Provision for loan commitments	**521**	–
Provision for loan guarantees	**(71)**	10
Provision for Credit Losses	**$741**	$549

13. Debt Instruments

The Corporation issues debt instruments in world capital markets. Short-term payables consist of commercial paper and other short-term debt related instruments that are issued by EDC with maturities under one year. Long-term payables represent bonds and other long-term instruments issued by the Corporation in Canadian dollars, U.S. dollars and other currencies. EDC uses currency swaps to convert foreign denominated fixed rate notes primarily to U.S. dollars. Interest rate swaps are principally used to convert fixed rate instruments to floating rates primarily related to LIBOR. EDC uses derivative contracts and structured notes to minimize the cost of capital and also for asset/liability management purposes.

Loans Payable

Loans payable (excluding derivatives) are comprised as follows:

($ in millions)	**2001**	2000
Short-term payables	**3,723**	3,270
Long-term payables		
- due within current year	**3,465**	3,273
- over one year	**12,426**	11,040
Total long-term payables	**15,891**	14,313
Subtotal	**19,614**	17,583
Plus: unamortized discounts and premiums	**4**	5
deferrals	**(9)**	(5)
Total Loans Payable	**$19,609**	$17,583

Unamortized discounts and premiums are associated with the issue of long-term debt and swaps. The amount of a discount or premium recorded represents the difference between the face value of an instrument and the actual cash flow at the time of settlement. Deferrals include gains incurred upon debt repurchases and swap unwinds. Such amounts are recorded as an asset or liability at the settlement date and amortized over the life of the instrument (in the case of discounts and premiums) or over the life of the replacement instrument (in the case of deferrals).

Accrued Interest

Accrued interest reflects corporate cash flow obligations and rights. Accrued interest is comprised as follows:

($ in millions)	**2001**	2000
Short-term	**12**	32
Long-term	**403**	422
Total Accrued Interest Payable	**$415**	$454

Structured Notes

EDC has entered into a number of structured notes as part of its funding program. Structured notes are hybrid securities that combine fixed income products with derivative components.

Structured notes outstanding, included in loans payable, are as follows:

($ in millions)	2001	2000
Callable/extendible	1,834	1,947
Inverse floating rate note	583	230
Equity index	541	631
Dual currency	244	543
Other	178	250
Total	$3,380	$3,601

The Corporation has executed swap contracts to mitigate market risk on these structured borrowings. These contracts ensure that EDC will receive proceeds from the swap to meet the requirements of settling and servicing the debt obligation. The Corporation has in substance created floating rate debt by issuing bonds at fixed rates and entering into swap contracts whereby EDC receives fixed rate interest and pays interest at a floating rate. In swapping out of the underlying bond issue, the potential market risk has been converted to credit risk. Credit risk is managed by contracting with counterparties evaluated as creditworthy, based on treasury limits and policy guidelines as approved by the Board of Directors. Credit exposure on derivative financial instruments is further discussed in note 17.

14. Debt Instrument Maturities

EDC often combines debt instruments with derivative financial instruments to generate lower-cost funding. For example, a fixed rate debt issue can be combined with an interest rate swap to generate floating rate funding at a lower cost than issuing a floating rate note. The following table shows EDC's resulting net fixed and floating rate debt positions, as well as yields on those net positions.

($ in millions)			2001		2000	
Year of Maturity	Debt Issues	Swap Contracts	Net	Yield* (%)	Net	Yield* (%)
Fixed Rate Issues						
2001	–	–	–	–	450	6.25
2002	2,665	(1,709)	956	7.04	900	7.15
2003	2,209	(994)	1,215	6.09	904	6.39
2004	2,345	(1,493)	852	6.13	427	6.87
2005	207	(207)	–	–	–	–
2006	1,335	(1,335)	–	–	–	–
2007 to 2011	3,867	(3,616)	251	8.14	237	8.14
2012 and beyond	53	(21)	32	8.16	30	8.16
Subtotal	12,681	(9,375)	3,306	6.92	2,948	7.17
Floating Rate Issues						
2001	–	–	–		6,180	
2002	4,523	1,830	6,353		2,192	
2003	1,209	1,034	2,243		1,217	
2004	159	1,614	1,773		1,265	
2005	41	217	258		286	
2006	97	1,389	1,486		750	
2007 to 2011	568	3,819	4,387		2,858	
2012 and beyond	336	44	380		79	
Subtotal	6,933	9,947	16,880	2.08	14,827	6.44
Total	$19,614	$572	$20,186		$17,775	

** Refers to yield to maturity for fixed rate issues, and yield to reset for floating rate issues.*

Credit exposure and other details on swap contracts are included as part of note 17.

15. Shareholder's Equity

The authorized share capital is $1.5 billion consisting of 15 million shares with a par value of $100 each. The number of shares issued and fully paid is 9.8 million (2000 – 9.8 million). No shares were issued in 2001 (2000 – nil).

16. Foreign Currency Balances

The Corporation has substantial assets and liabilities in U.S. dollars and in other currencies. In addition, EDC has derivative financial instruments denominated in various currencies. The purpose of these derivative financial instruments is to minimize the cost of capital and optimize yields for the Corporation, while remaining within treasury guidelines and limits approved by the Board of Directors.

The table below shows where EDC has used derivative financial instruments to manage the foreign currency exposures of its asset and liability positions. The resulting net foreign currency exposure as at December 31 (expressed in Canadian equivalent dollars) is as follows:

($ in millions)							2001		2000	
	Assets			Liabilities						
	Gross	DFI*	Net	Gross	DFI*	Net	Net Foreign Currency Exposure	Rate	Net Foreign Currency Exposure	Rate
U.S. Dollars	19,665	320	19,985	(10,981)	(9,062)	(20,043)	(58)	1.5926	(88)	1.5002
Euro	562	(15)	547	(461)	(84)	(545)	2	1.4185	3	1.4092
British Pounds	910	(10)	900	–	(897)	(897)	3	2.3160	–	2.2432
Japanese Yen	67	(67)	–	(714)	714	–	–	0.0122	–	0.0131
New Zealand Dollars	–	–	–	(177)	177	–	–	0.6636	–	0.6641
Australian Dollars	8	(8)	–	(114)	114	–	–	0.8156	–	0.8349
Swedish Krona	40	–	40	–	(40)	(40)	–	0.1525	–	0.1587

** DFI (Derivative Financial Instruments) includes currency swaps and foreign exchange contracts. See note 17.*

The Corporation experienced a foreign exchange gain of $75 thousand in 2001 (2000 – gain of $1 million). This amount is included in interest expense. Throughout the year, EDC's assets and liabilities were denominated mainly in U.S. dollars, euro and British pounds.

17. Derivative Financial Instruments

The Corporation actively manages its exposure to market risk through the use of derivative financial instruments. Treasury policy and guidelines limit the use of derivatives. EDC does not use derivatives for speculative purposes. It uses a variety of these instruments to manage funding costs and investment returns, and to implement asset/liability management strategies in order to minimize market risks in EDC's portfolios. The credit risk in these instruments is managed in accordance with guidelines established in the Market Risk Management Department and approved by the Board of Directors.

EDC currently uses, but is not limited to, the following types of instruments:

Interest rate swaps – transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged.

Currency swaps – transactions in which two parties exchange currencies at inception and at maturity, as well as interest flows on the exchanged amounts on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest.

Equity index swaps – transactions used to eliminate exposure to movements in an equity index on a debt issue undertaken by the Corporation. Two counterparties agree to exchange payments, one of which represents the percentage change in an agreed-upon equity index and the other a short-term interest rate index. The principal may either resemble an interest rate swap, in that no exchange of notional amounts occurs, or a currency swap, in which currencies will be exchanged at both inception and maturity.

Foreign exchange contracts – commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

In any transaction there is a potential for loss. This loss potential is represented by (1) credit risk, wherein the counterparty fails to perform an obligation as agreed upon, causing the other party to incur a financial loss, and (2) market risk, where an exposure exists as a result of changes in foreign exchange rates or interest rates.

The Corporation manages its exposure to credit risk by contracting only with financial institutions having minimum original credit ratings of A for terms of three years and under, and AA- for terms greater than three years. Internal policies and procedures establish credit approvals, controls and monitoring. The Corporation does not anticipate any significant non-performance by the counterparties.

The Corporation manages its exposure to market risk (interest rate and foreign exchange) using limits developed in consultation with the Department of Finance and approved by the Board of Directors.

Credit impairment in the derivative financial instruments, marketable securities and investments has been estimated not to exceed $20 million. Accordingly, an allowance for credit risk of $20 million (2000 – $20 million) has been established. This amount is included in accounts payable.

Notional principal amounts outstanding as at December 31 are listed below for interest rate, currency swap and foreign exchange contracts entered into by the Corporation.

($ in millions)					2001	2000
	Remaining Term to Maturity					
	Under 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total	Total
Currency swaps	1,847	1,500	916	4,548	8,811	8,134
Interest rate swaps	619	2,137	821	579	4,156	3,691
Foreign exchange contracts	3,149	–	–	–	3,149	2,786
Total derivative financial instruments	$5,615	$3,637	$1,737	$5,127	$16,116	$14,611

These same derivatives can be measured by book value and fair value.

	2001	2000
Book value:		
Asset	167	253
Liability	(516)	(287)
Fair value:		
Positive	293	276
Negative	(532)	(376)

Swaps that have a positive fair value are those contracts that, if settled immediately, would result in a gain. Conversely, immediate settlement of a swap with a negative fair value would result in a loss.

18. Fair Value of Financial Instruments

The following chart outlines the book values and the fair values of the Corporation's financial instruments. As with any estimate, uncertainty is inherent due to the unpredictability of future events. In the case of estimating the fair value of the Corporation's financial instruments, this uncertainty is magnified due to the large number of assumptions used and the wide range of acceptable valuation techniques. Estimates of fair values are based on market conditions at a certain point in time, and may not be reflective of future market conditions. Thus, the estimates of the value of financial instruments outlined as follows do not necessarily reflect the actual values that may occur should the instruments be exchanged in the market. It is not the Corporation's intent to settle these items in the market before they mature.

The aggregate of the estimates of the fair value of financial instruments presented as follows does not reflect an estimate of the underlying value of the Corporation.

($ in millions)	2001		2000	
Balance Sheet Financial Instruments	**Book Value**	**Fair Value**	Book Value	Fair Value
Cash and marketable securities:				
Fixed rate securities	430	438	534	536
Floating rate securities	1,752	1,753	1,671	1,671
Investments	173	173	170	174
Performing fixed rate loans	12,132	11,160	9,077	8,716
Performing floating rate loans	11,713	10,252	11,967	10,767
Impaired loans (net of specific allowance and non-accrued capitalized interest)	538	538	276	276
Subtotal	26,738	24,314	23,695	22,140
Less: Non-accrued capitalized interest on				
Performing Loans*	499	–	549	–
General allowance for loan losses (note 7)	2,522	–	2,269	–
Total	$23,717	$24,314	$20,877	$22,140
Accounts payable	131	131	84	84
Loans payable:				
Fixed rate	12,992	13,276	11,637	11,669
Floating rate	7,037	7,042	6,400	6,400
Total	$20,160	$20,449	$18,121	$18,153

** Represents the unamortized balance that accrued while the loan was impaired.*

Note: The book value of assets and liabilities shown above differs slightly from the balances on the financial statements due to the exclusion of deferrals that do not have a fair value.

($ in millions)	2001	2000
Off-Balance Sheet Financial Instruments	**Fair Value**	Fair Value
Currency swap contracts	(319)	(57)
Interest rate swap contracts	107	18
Foreign exchange contracts	(27)	(61)
Undisbursed loan commitments:		
Fixed rate	251	103
Floating rate	221	(64)

The fair values of marketable securities and investments are estimated using observable market prices. If such prices are not available, a valuation technique is used that is consistent with accepted economic pricing methodologies.

In order to estimate the fair value of its performing loans receivable, the Corporation separates its loans into risk pools and calculates the net present value of cash flows of principal and interest. The discount rate for the fixed rate portfolio is derived by taking the base rate, U.S. Treasury for U.S. dollar fixed rate cash flows, for example, to which a spread for credit risk is added to each credit pool. The discount rate for the floating rate portfolio is derived similarly by adding to the base rate a spread for credit risk depending on the grade of credit. The fair value of undisbursed loan commitments is estimated using the same methodology used in the performing loans receivable estimate.

The estimate of the fair value of fixed rate loans payable and investments is based on a discounted cash flow approach using current market rates.

Accounts payable are outstanding for only a short period of time. Thus, the fair value of accounts payable is estimated to be equal to their book value.

The estimate of the fair value of the foreign exchange contracts is calculated using the current market spot and forward exchange rates at the end of the year. Currency swap contracts and interest rate swap contracts are valued using a discounted cash flow approach. The discount rate used to estimate the fair value of the swap contracts is based on the current market swap rates at the end of the year as issued by Reuters and Telerate. These rates are used to calculate the present value of future interest payments and principal cash flows related to the swap contracts.

19. Related Party Transactions

The Corporation enters into transactions with other government departments, agencies and Crown corporations in the normal course of business.

When sovereign borrowers experience financial difficulties and are unable to meet their debt obligations, sovereign creditors, including the Government of Canada, agree at an international forum, the Paris Club, to formally reschedule the borrower's debt obligations. From time to time and on a case-by-case basis, the most heavily indebted sovereign borrowers are granted debt reduction or debt service relief. The granting of debt reduction or relief is contingent upon the sovereign borrower's ability to implement and maintain economic programs outlined by the International Monetary Fund. Up until March 31, 2001, the Government of Canada paid the Corporation an amount equal to the debt relief granted to the Corporation's sovereign borrowers by the Paris Club. The formula for calculating the amount to be paid to the Corporation was amended effective April 1, 2001 to exclude new credits to sovereign borrowers already receiving debt relief reduction. Also, a reduction in payments was introduced for debt relief applicable to sovereign obligations not previously subject to such arrangements. With this reduction, EDC will share in the costs of debt forgiveness to the amount of its appropriate specific allowances. Amounts received for debt relief arrangements on sovereign impaired loans are credited to the book value of the loans similar to the treatment accorded other receipts on impaired loans. To the extent that amounts received exceed the book value of the loans, interest income is recorded.

During 2001, the Corporation received from the Government of Canada $13 million (2000 – $12 million) for principal pursuant to debt relief arrangements.

In addition, the Corporation has loans receivable of $1,222 million (2000 – $844 million) and undisbursed commitments of $275 million (2000 – $653 million), for which it has recourse to the Consolidated Revenue Fund of Canada in the event of a loan default.

20. Employee Benefits

Pension Plan

Effective April 24, 2000, the Corporation established a pension plan for its employees. The plan is a defined benefit plan, providing benefits to retirees based on years of service and the best five consecutive years' average salary of the employees. All permanent employees of EDC are members of the pension plan, however, employee contributions to the plan are optional.

Employees had until January 4, 2001 to elect to transfer pension benefits accrued to April 23, 2000 to the new pension plan or leave them with the Public Service Superannuation Fund until retirement. At year end, the projected benefit obligation includes the entire liability that was transferred to the registered plan in respect of credited service before April 24, 2000. As of December 31, 2001, the Government of Canada had transferred $80 million to the Corporation's pension plan to fund the pension liabilities that were transferred. Included in pension assets is $43 million owing from the Government of Canada to fund the balance of the obligation that was transferred. The PSSA is in the process of establishing the Regulation required to enable it to transfer the obligation and the corresponding assets with respect to the Corporation's supplementary plan. It is anticipated that the transfer will occur in 2002.

Other Benefits Plan

The Corporation maintains a retiring allowance program and provides certain life insurance, health and dental care benefits to retired employees.

The following presents the financial position of EDC's Employee Benefit Plans at December 31, 2001.

($ in thousands)	2001		2000	
	Pension Benefits Plan	**Other Benefits Plan**	Pension Benefits Plan	Other Benefits Plan
Accrued Benefit Obligation:				
Obligation beginning of year	6,689	22,474	–	20,026
Current service costs	11,087	1,879	6,428	1,618
Interest cost on benefit obligation	1,214	1,743	319	1,547
Obligation transferred from PSSA	123,227	–	–	–
Actuarial (gain)/loss including change in basis*	(13,941)	2,687	–	(110)
Benefits paid	(1,672)	(179)	(58)	(607)
Accrued benefit obligation at end of year	126,604	28,604	6,689	22,474
Fair Value of Plan Assets:				
Fair value at beginning of year	6,070	–	–	–
Actual return on plan assets	(556)	–	112	–
Transfer from PSSA	80,000	–	–	–
Receivable from PSSA	43,227	–	–	–
Employer contributions	7,641	179	4,389	607
Employee contributions	3,076	–	1,627	–
Benefits paid	(1,672)	(179)	(58)	(607)
Fair value at end of year	137,786	–	6,070	–
Funded Status – plan surplus/(deficit)	11,182	(28,604)	(619)	(22,474)
Unamortized net actuarial (gain)/loss	(12,541)	2,576	43	(110)
Unamortized transitional obligation	–	9,608	–	10,212
Accrued benefit liability	$(1,359)	$(16,420)	$(576)	$(12,372)

* *The actuarial gain figure of $13,941 thousand primarily arises because, for accounting purposes, Section 3461 requires the use of a prescribed method and certain prescribed assumptions. These differ from the methods and assumptions used to value and fund the obligation that was transferred from the PSSA.*

Included in the accrued benefit obligation is an amount of $1,905 thousand (2000 – $1,034 thousand) and included in the fair value of plan assets is $1,372 thousand (2000 – $584 thousand), both in respect to the Supplementary plan.

Net Employee Benefits Expense

($ in thousands)

	2001		2000	
	Pension Benefits Plan	**Other Benefits Plan**	Pension Benefits Plan	Other Benefits Plan
Current service costs (net of employee contributions)	**8,011**	**1,879**	4,801	1,618
Interest cost on benefit obligation	**1,214**	**1,743**	319	1,547
Expected return on plan assets	**(800)**	**–**	(155)	–
Amortization of transitional obligation	**–**	**604**	–	604
Total	**$8,425**	**$4,226**	$4,965	$3,769

Assumptions

	2001		2000	
	Pension Benefits Plan	**Other Benefits Plan**	Pension Benefits Plan	Other Benefits Plan
Expected long-term rate of return on assets	**8.0%**	**n/a**	8.0%	n/a
Discount rate on projected benefit obligation	**7.0%**	**7.0%**	7.25%	7.25%
Inflation	**3.0%**	**3.0%**	3.0%	3.0%
Rate of compensation increase	**Inflation + 1% productivity + merit**	**Inflation + 1% productivity + merit**	Inflation + 1% productivity + merit	Inflation + 1% productivity + merit

The initial annual rate of increase for covered medical care benefits is assumed to be 8%. This rate is projected to trend down over 7 years to an ultimate rate of 4%. For dental care, the trend rate used was 4%.

21. Canada Account Transactions

Pursuant to the Act, the Minister for International Trade, with the concurrence of the Minister of Finance, may authorize the Corporation to undertake certain financial and contingent liability transactions. These transactions and the legislative authorities that underlie them have come to be known collectively as the "Canada Account". The Board of Directors is responsible only for ensuring that the transactions made by the Corporation under the Canada Account are administered appropriately. Accounts for these transactions are maintained separately from the Corporation's accounts and are consolidated annually as at March 31 with the financial statements of the Government of Canada, which are reported upon separately by the Government and audited by the Auditor General of Canada. The assets under the Canada Account, mainly loans receivable and accrued interest and fees recorded in accordance with the accounting policies and practices of the Government of Canada, amounted to $2,774 million at December 31, 2001 (2000 – $2,644 million).

The Act allows the Canada Account to have outstanding loans and commitments to foreign borrowers, and liabilities under contracts of insurance and other agreements up to a maximum of $13 billion. The position against this limit, determined in accordance with the requirements of the Act, is $5,030 million (2000 – $4,921 million).

During 2001, a new methodology to compensate EDC for expenses and overhead related to Canada Account activities was instituted. This, together with a low volume of activity, resulted in the Corporation retaining $12 million (2000 – $28 million) from Canada Account receipts and recoveries for these expenses and overhead.

22. Reclassification of Comparative Figures

Certain 2000 comparative figures have been reclassified to conform to the presentation adopted in 2001.

Balance Sheets

as at December 31

($ in millions)	**2001**	2000	1999	1998	1997
Gross loans receivable	**25,226**	22,023	18,598	16,524	12,373
Less: non-accrued capitalized interest	**1,241**	1,165	1,182	1,255	1,082
Less: allowance for losses on loans	**2,892**	2,700	2,324	2,060	1,628
Less: deferred loan revenue	**267**	272	248	220	207
Net loans receivable	**20,826**	17,886	14,844	12,989	9,456
Cash and investments	**2,346**	2,357	3,417	1,730	1,927
Accrued interest and other assets	**621**	747	1,253	761	262
Total assets	**$23,793**	$20,990	$19,514	$15,480	$11,645
Loans payable	**19,609**	17,583	16,325	12,636	9,556
Accrued interest and other liabilities	**1,082**	846	937	728	208
Allowance for loan commitments and guarantees	**588**	130	115	129	90
Allowance for claims on insurance	**464**	439	339	307	246
Total liabilities	**21,743**	18,998	17,716	13,800	10,100
Share capital	**983**	983	983	983	983
Retained earnings	**1,067**	1,009	815	697	562
Shareholder's equity	**2,050**	1,992	1,798	1,680	1,545
Total liabilities and shareholder's equity	**$23,793**	$20,990	$19,514	$15,480	$11,645

Income Statements

for the year ended December 31

($ in millions)	**2001**	2000	1999	1998	1997
Interest income – loans	**1,621**	1,585	1,258	1,055	782
Interest income – investment portfolio	**127**	197	146	126	92
Less: interest expense	**934**	1,066	796	642	481
Net interest income	**814**	716	608	539	393
Insurance premiums and guarantee fees	**134**	144	133	110	99
Provision for credit losses	**741**	549	523	433	295
Income after provision for credit losses	**207**	311	218	216	197
Administrative expenses	**149**	117	100	81	69
Net income	**$58**	$194	$118	$135	$128

Corporate Account

Financial Arrangements Facilitated

($ in millions)	2001	2000	1999	1998	1997
Export Financing					
Direct financing	8,419	7,657	6,060	6,639	5,454
Export Insurance					
Short-term insurance*	26,776	25,807	23,792	20,660	17,356
Medium-term insurance	8,555	7,080	5,914	3,933	2,629
Guarantees	597	325	456	189	221
Subtotal	35,928	33,212	30,162	24,782	20,206
Total	$44,347	$40,869	$36,222	$31,421	$25,660
Short-term domestic insurance not included above	$1,157	$3,996	$3,833	$3,330	$2,976

Financial and Other Data

	2001	2000	1999	1998	1997
Export Financing					
Number of transactions financed	556	458	372	351	242
Value of total obligations on loans receivable	25,226	22,023	18,598	16,524	12,469
Value of undisbursed loans	4,938	4,825	5,345	5,813	6,482
Value of disbursements	8,085	7,210	6,374	5,822	3,295
Value of liability on loan guarantees	2,212	1,795	1,643	1,723	416
Undisbursed amounts on loan guarantees	355	112	123	150	145
Number of current lines of credit and protocols	40	44	55	52	44
Amounts available for allocation	1,476	1,176	1,659	1,320	1,356
Loan amounts rescheduled	290	264	720	237	158
Loan amounts written off	191	105	–	–	18
Export Insurance					
Number of policies issued	5,090	3,951	3,879	3,345	3,021
Number of insurance policies and guarantees in force	9,982	8,264	7,190	6,272	5,352
Value of liability on insurance and guarantees	13,278	12,495	10,955	9,921	8,163
Value of claims paid	144	84	134	72	43
Value of claims recovered/rescheduled	51	30	17	19	16
Value of claims outstanding at end of year	298	246	234	164	119
Value of claims under consideration at end of year	48	36	38	62	15
Average employee strength during year	939	838	778	698	650

* *Excludes domestic insurance.*

Canada Account

Financial Arrangements Facilitated

($ in millions)	2001	2000	1999	1998	1997
Export Financing					
Direct financing	135	38	67	9	1,584
Export Insurance					
Short-term insurance	–	–	–	–	–
Medium-term insurance	16	224	247	497	283
Guarantees	–	–	–	12	34
Subtotal	16	224	247	509	317
Total	$151	$262	$314	$518	$1,901

Financial and Other Data

	2001	2000	1999	1998	1997
Export Financing					
Number of transactions financed	8	11	12	5	7
Value of total obligations on loans receivable	2,682	2,490	2,599	2,904	2,799
Value of undisbursed loans	101	192	183	194	309
Value of disbursements	203	76	66	100	112
Number of current lines of credit and protocols	2	3	2	2	1
Amounts available for allocation	88	73	73	87	20
Loan amounts rescheduled	43	3	45	45	136
Export Insurance					
Number of policies issued	1	1	4	12	12
Number of insurance policies and guarantees in force	4	5	20	25	23
Value of liability on insurance and guarantees	56	170	199	299	241
Value of claims paid	–	–	8	4	6
Value of claims recovered	–	–	–	7	–
Value of claims outstanding at end of year	47	46	46	38	41

Members of the Board of Directors as at December 31, 2001

Mr. J. Bernard Boudreau
President and Chief Executive Officer
EnerVision, Inc.
Halifax, Nova Scotia

Ms Dorothy E. Byrne, Q.C.
President, Eagle Island Consulting Corp.
Corporate Secretary
Vancouver/Whistler 2010 Bid Corporation
Vancouver, British Columbia

Mr. Rayburn D. Doucett
President
Crosswaters Trade Brokers Limited
Belledune, New Brunswick

Mr. Leonard J. Edwards
Deputy Minister for International Trade
Ottawa, Ontario

Mr. Rowland W. Fleming
President
Vergemount Inc.
Mississauga, Ontario

Mr. Jonathan T. Fried
Deputy Minister of Finance & G-7 Deputy
Ottawa, Ontario

Mr. Robert A. Fung
Deputy Chairman
Yorkton Financial Inc.
Toronto, Ontario

Mr. A. Ian Gillespie
President and Chief Executive Officer
Export Development Canada
Ottawa, Ontario

Mr. Robert J. Holt
President
Applied Common Sense Solutions Inc.
Saltspring Island, British Columbia

Mr. Patrick J. Lavelle
Chairman of the Board
Export Development Canada
Toronto, Ontario

Mr. Pierre MacDonald
President and Chief Executive Officer
MacD Consult Inc.
Verdun, Quebec

Mr. James A. Pattillo
President
Advance Film Group
Calgary, Alberta

Ms Dominique Vachon
Vice-President and Chief Economist
Strategic Markets and Clients
National Bank of Canada
Montreal, Quebec

Mr. Ajay K. Virmani
President
Canada 3000 Cargo Inc.
Mississauga, Ontario

Ms Margriet Zwarts
General Counsel and Secretary
Telesystem International Wireless Inc.
Montreal, Quebec

During 2001, the following changes occurred on the Board of Directors:

- Ian Bennett was appointed a director on March 1, 2001 and resigned on July 31, 2001
- Grace White resigned on March 6, 2001
- Rowland Fleming was appointed a director on March 20, 2001
- Ajay Virmani was appointed a director on March 20, 2001
- Robert Wright resigned effective June 8, 2001
- Bernard Boudreau was appointed a director on August 28, 2001
- Leonard Edwards was appointed a director on August 28, 2001
- Jonathan Fried was appointed a director on August 28, 2001
- Margriet Zwarts was appointed a director on December 14, 2001
- Patrick Lavelle's term as Chairman of the Board expired on December 31, 2001
- Paul Gobeil was appointed Chairman of the Board on December 14, 2001, effective January 1, 2002

The year 2001 was marked by numerous events and changes in both EDC's internal and external environments, which provided the Board of Directors (the Board) and its various committees with an opportunity to actively assume the leadership and stewardship of the Corporation and ensure that effective corporate governance practices were in place. In so doing, through the 44 meetings of the Board and its committees that were held during the year, direction and guidance were provided by the Board to EDC's management on key aspects of EDC's operations. Furthermore, the Board and more specifically the Risk Management Committee of the Board (Board RMC), following the tragic events of September 11, acted diligently in fulfilling their responsibility of overseeing the management of the Corporation and ensuring appropriate controls and management information systems and practices were in place for the safeguarding of the Corporation's resources.

To ensure that EDC's corporate governance practices comply with the guidelines set out by Treasury Board in its publication entitled *Corporate Governance in Crown Corporations and Other Public Enterprises* (the Guidelines), the members of the Board completed, for the second year, an annual Directors' Survey (the 2001 Survey) through an independent party, the Conference Board of Canada. The confidential process followed to complete the 2001 Survey ensured that the Board received objective results on the evaluation of the Board functioning. Those results were then compared to last year's findings and to benchmarks from other boards in Canada.

The Guidelines were more specifically addressed in 2001 as indicated below:

Board Stewardship

With respect to its key responsibility, that of the stewardship of the Corporation, the following initiatives were undertaken in 2001.

Strategic Direction: The Board monitored, throughout the year, the legislative review process which ended on December 21, 2001, by the coming into force of Bill C-31, *An Act to amend the Export Development Act and to make consequential amendments to other Acts* (the Bill), pursuant to the terms of which the *Export Development Act* was amended. Also, to achieve the ambitious objectives driving the strategic direction of the Corporation, the Board and its Business Development Committee monitored important initiatives such as the development of e-business products, the establishment and expansion of EDC's representation in international markets, and the achievement of business development plans for EDC teams following an extensive review of EDC's current business development practices. Furthermore, at its meeting held in October, the Board approved, taking into consideration the forthcoming amendments to the *Export Development Act* and the numerous uncertainties of the economy, the 2002-2006 Corporate Plan of the Corporation.

Identifying and Managing Risks: The Board RMC pursued its efforts in the achievement of the goal of developing and implementing an Enterprise Risk Management (ERM) framework by the end of 2004. Indeed, as part of the evolution towards ERM, at its February

Following September 11, the Board played an integral role in safeguarding EDC's resources.

2001 meeting, the Board RMC recommended to the Board, and the Board approved, an amendment to the Credit Risk Management Policy included in the Credit Risk Policy Manual (CRPM) to introduce a Risk Weighting Methodology. The Board RMC is also, among other initiatives, monitoring the development and anticipated implementation for 2002 of a Risk Transfer Management Framework that will enhance EDC's capacity to manage its credit portfolios and risk capital. Finally, throughout the year, and more specifically after the September 11 events, both the Board RMC and the Board held joint meetings at which they thoroughly reviewed management's reports required by both the CRPM and the Market Risk Management Policy Manual, as well as other specific reports assembled by management as part of the response to such events. Those reports provided important information to the Board such as EDC's credit risk exposures, compliance with the various policies and asset/liability positions and, considering the climate of uncertainty, contributed to ensuring that the financial viability of the Corporation was monitored properly.

Succession Planning: The Human Resources Committee (HRC) of the Board oversaw the 2001 initiatives with regard to succession planning, and more specifically issues dealing with leadership development. To ensure that skilled management will be available for the ongoing and longer-term fulfillment of EDC's mandate, the HRC monitored activities such as the 360° feedback process, which provided information to enable the Corporation to focus on its training and recruitment efforts, and succession planning at EDC's executive level.

Board Requirements: To ensure that information systems and management practices meet the Board's needs, the various committees of the Board periodically oversaw reports from management providing information such as EDC's performance, financial results and credit risk exposures. Consequently, the 2001 Survey results indicated that the Board was very satisfied with the information it had received from EDC, and considered that such information was complete, effective and timely.

Public Policy Objectives: The Board of EDC was particularly active in 2001 in ensuring that public policy objectives were clearly described, as well as in endeavoring to strike an appropriate balance between EDC's commercial disciplines and its public policy objectives. Indeed, an important undertaking which had been initiated in 2000, the Disclosure Policy, was approved by the Board. The implementation of that policy enables EDC to disclose to the public more information on its business activities, while ensuring customers' commercial confidentiality.

Another major initiative closely monitored by the Board was the completion of the review and audit, started the previous

year, by the Auditor General of Canada of the Environmental Review Framework (ERF). In addition, while responding to a new statutory obligation, the Board further enhanced the ERF by approving at the end of the year, effective on the coming into force, and in accordance with the provisions of, the Bill, the Environmental Review Directive (the Directive). The Directive replaces the ERF and addresses the recommendations made in the report of the Auditor General on the review and audit of the ERF.

Communications: To ensure that EDC adequately communicates the significant issues it confronts, as mentioned above, the Board closely monitored the creation of the Disclosure Policy, which it had also approved. With the coming into force of the Bill, which among other things, changed the Corporation's name, the Business Development Committee of the Board oversaw the launching of EDC's new identity, as well as diverse collateral materials targeting Canadian exporters and Members of Parliament, and made periodic reports to the Board in respect of same.

Working with Management

The results of the 2001 Survey clearly indicate the importance of developing an effective working relationship between the Board and management. In this regard, the Board has developed an approach consisting of annually establishing and approving, in agreement with the President, his objectives for the year, which objectives are, the following year, used to measure his performance. To that effect, in 2001, the Board measured the President's performance during 2000 in the light of his objectives for that year and reviewed and approved his objectives for the year 2001.

In terms of allocating responsibilities between the Board and management, the Delegation of Authority implemented in 2000 clearly set such responsibilities and facilitated the Board's focus in 2001 on broader issues such as setting the direction and the objectives of the Corporation. Formal terms of reference for the Board, the Chairman of the Board and the President are still under development, their approval having been delayed by the Board's focus on the various matters surrounding the coming into force of the Bill. The implementation of those terms of reference will be instrumental in ensuring the Board's independence and separating the roles of the Board, the Chairman and the President.

Finally, following a practice established a few years ago, in-camera sessions continued to be held at each meeting of the Board and some meetings of the committees. This year again, at its May meeting, the Board approved changes to the membership of the various committees of the Board to ensure the best alignment of expertise.

Functioning of the Board

The year 2001 provided an opportunity for EDC to enhance and implement the various corporate governance initiatives developed the previous years. It was also marked by numerous changes in the composition of the Board. In that regard, each newly appointed director received, upon their respective appointment, orientation sessions and comprehensive documentation on EDC and its various practices, thereby ensuring appropriate education.

While continued efforts have been deployed in 2001 to evolve EDC's corporate governance practices beyond mere compliance with the Guidelines, EDC's Board members' strong backgrounds in corporate governance coupled with active involvement in corporate governance organizations, will certainly lead the Corporation towards "best-in-class" practices.

Committees of the Board of Directors

The Audit Committee assists the Board in fulfilling its responsibilities in relation to: financial reporting and performance measurement; financial and management control systems and practices; the safe-guarding of assets of the Corporation and the management of its resources; corporate financing; internal and external audits; EDC's Code of Business Ethics and Code of Conduct; and its Environmental Review Framework (replaced by the Environmental Review Directive in December 2001). Areas of particular focus in 2001 included the monitoring of the audit by the Office of the Auditor General of the Environmental Review Framework, and the review and implementation of an Allowance for Loan Losses methodology and of the Economic Capital measurement methodology. In 2001, the Committee held four meetings, and one joint meeting with the Risk Management Committee.

Members: R.A. Fung (Chair), R.J. Holt, P. MacDonald, J.A. Pattillo, and A.K. Virmani.

The Business Development Committee assists the Board by providing policy direction to enhance EDC's ability to meet the evolving needs of the market, taking into account factors related to industrial sector and/or regional economy. Areas of particular focus in 2001 included: the development and implementation of major e-business initiatives, work towards the expansion of EDC's international market representations, and the launching of EDC's new corporate identity following the review of the *Export Development Act*. In 2001, the Committee held six meetings.

Members: R.D. Doucett (Chair), J.B. Boudreau, D.E. Byrne, R.A. Fung, P. MacDonald, D. Vachon and A.K. Virmani.

The Corporate Governance Committee is responsible for, and makes recommendations to the Board on, matters relating to EDC's corporate governance regime, including the development and implementation of methods to ensure good Board performance; and the determination of the structure, responsibility and composition of the various committees of the Board. Areas of particular focus in 2001 included the monitoring of a directors' survey, conducted by an independent third party; an ongoing review of EDC's corporate governance practices compared to Treasury Board Guidelines; and the review of changes in the membership of the various committees of the Board. In 2001, the Committee held one meeting.

Members: The Chairman of the Board, D.E. Byrne, R.D. Doucett, R.W. Fleming, J.A. Pattillo and D. Vachon.

The Executive Committee has the authority to exercise all the powers of the Board with the exception of: declaring dividends; approving any corporate plan, budget, financial statement or report required by any statute or under EDC's By-Laws; and making, amending or repealing EDC's By-Laws. This Committee is intended to meet to handle only those urgent matters that may arise between meetings of the Board. In 2001, the Committee held four meetings.

Members: The Chairman of the Board, L.J. Edwards, A.I. Gillespie, P. MacDonald and J.A. Pattillo.

The Human Resources Committee assists the Board by: reviewing and making recommendations to the Board on EDC's Human Resources strategic plan, succession plans for executive officers, and EDC's compensation policy; approving, on the recommendation of the President, the annual budget for both base pay and variable pay, and the annual cash compensation paid to senior executives; and working with the Pension Committee in making recommendations to the Board regarding the design of the pension plan for EDC employees, and any changes to pension benefits that may be made after the establishment of the plan. Areas of particular focus in 2001 included: a review of the President's performance against objectives; succession planning for senior management positions; and approval of EDC's compensation plan for 2002. In 2001, the Committee held five meetings, and one joint meeting with the Pension Committee.

Members: R.J. Holt (Chair), R.D. Doucett, L.J. Edwards, A.I. Gillespie, P. MacDonald and the Chairman of the Board.

The Pension Committee had an initial mandate of assisting the Board in establishing the pension plan for EDC employees, and has ongoing responsibilities with regard to the administration of the plan including ensuring the plan is administered and funded in accordance with applicable legislation, required documents are filed with appropriate authorities and all activities of the plan are monitored on an ongoing basis, as well as working with the Human Resources Committee in making recommendations to the Board on any changes to the design of and benefits under the plan. Areas of particular focus in 2001 included: putting in place revised Statements of Investment Policies and Procedure; and the approval of the selection and engagement of service providers. In 2001, the Committee held five meetings, and one joint meeting with the Human Resources Committee.

Members: R.W. Fleming (Chair), D.E. Byrne, A.I. Gillespie, R.J. Holt and the Chairman of the Board.

The Risk Management Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of the financial and other enterprise risks, including direct and contingent credit exposures undertaken by the Corporation in the conduct of its business activities, including establishing and updating, as required, an effective and flexible regime governing the authorizations required by the Corporation to undertake such activities; the risks to the Corporation's financial resources and value from exposure to changes in market risk factors such as interest rates, foreign exchange rates and equity indices; and availability of liquid diversified financial resources to call upon in the event that market conditions do not permit access to funding. Areas of particular focus in 2001 included: closely monitoring the economic and political environment, as well as EDC's exposure vis-à-vis its portfolio, more specifically following the tragic events of September 11. In 2001, the Committee held six meetings and one joint meeting with the Audit Committee.

Members: P. MacDonald (Chair), J.B. Boudreau, R.W. Fleming, A.I. Gillespie, R.J. Holt and the Chairman of the Board.

All committees are required to report to the Board of Directors on their activities on a regular and timely basis.

The remuneration of directors falls under the authority of the Governor General in Council, which approved in 2001, effective October 2000, an increase in both the annual and per diem fees paid to the Chairman of the Board and to the other private sector directors. The Chairman of the Board is now paid an annual fee of $12,400 and a per diem of $485, and the other private sector directors are paid an annual fee of $6,200 and a per diem of $485. In addition, private sector directors, other than the Chairman of the Board, receive annual fees of $2,000 when they hold office as Vice Chairman of the Board or Chair of a committee of the Board. Public service directors are not paid for their services as directors.

The total aggregate remuneration paid in 2001 to EDC's private sector directors was approximately $279,000, compared to $187,000 in 2000. The directors served, on average, on three committees of the Board, and attended, as for the previous year, a total of 44 Board and committee meetings in 2001. The total costs incurred by the Board, including business travel and promotion as well as meeting expenses, were $262,774 for 2001 compared to $225,715 for 2000.

Commitment to legal and ethical conduct

EDC will conduct its business and affairs in accordance with the letter and spirit of all applicable laws in the countries in which it does business. If any EDC employee or representative is ever uncertain as to the interpretation or application of a particular law, he or she must seek advice from Legal Services before taking action. Compliance with the law may, however, fall short of the standard of ethical conduct expected by EDC.

Accordingly, it is EDC's policy that each of its directors, employees and representatives conduct EDC's business with honesty, integrity and fairness. It is also corporate policy that communication and relationships with stakeholders be truthful and transparent in a way that will withstand the highest degree of public scrutiny. Working relationships will be based on candor and openness, treating each other fairly and with respect, while acting with integrity, and weighing responsibilities to all stakeholders.

The environment

In considering transactions, EDC examines environmental risk along with any other risk. EDC has developed its own environmental assessment procedure in consultation with Canadian exporters, environmental organizations and other stakeholders. This procedure will support EDC's desire to conserve and enhance environmental quality and to advocate concern for the environmental impact of projects it supports in foreign jurisdictions. EDC will encourage best practices among those with whom it does business, with the aim of raising international environmental standards. EDC will strive for high standards of environmental conservation while ensuring that this does not unduly hinder EDC's ability to support Canadian exporters to compete on a global scale.

Prohibitions against bribery and corruption

Basic criminal statutes of virtually all countries prohibit extortion and bribery. Under no circumstances will EDC, directly or indirectly, knowingly offer or give a bribe. Further, EDC will not support a transaction that involves the offer or giving of a bribe, and will exercise reasonable diligence and care not to support unknowingly such a transaction.

Human rights

EDC values human rights and promotes the protection of internationally recognized human rights, consistent with the policies of the Government of Canada. EDC recognizes the sovereignty of other national governments with respect to human rights and conducts business with them where doing so is consistent with the policies of the Government of Canada.

EDC employees, representatives and other stakeholders are entitled to have their dignity as human beings respected and to work in an environment free from intimidation, hostility or offensiveness. EDC is therefore committed to creating and maintaining a work and business environment that is free from harassment and discrimination on prohibited grounds. These prohibited grounds include age, race, colour, religion, creed, sex, nationality, ethnic or place of origin, citizenship, language, political belief, marital or family status, pregnancy, sexual orientation and disability.

Avoiding conflicts of interest

Employees and representatives of EDC have a duty to act in the best interests of EDC at all times. A conflict of interest arises when an employee must choose between EDC's best interests and his/her own. The judgment of EDC employees and representatives must be, and must be seen to be, independent of any personal or financial interests that arise from business dealings, social ties, or other personal considerations.

EDC has adopted a Code of Conduct that requires employees and representatives of EDC to adhere to the highest standards of conduct with respect to conflicts of interest. Compliance with these standards is achieved through avoidance, disclosure, discontinuance or divestment.

Maintaining confidentiality of information

EDC will respect the privacy rights of its stakeholders, including their right to security of information. EDC will preserve confidential information in its possession, and use such information only for corporate purposes.

Some employees have access to sensitive or confidential information that, if released, could significantly harm EDC, its employees or other stakeholders. Therefore, employees and other representatives of EDC must use extreme care when handling such information. As a general rule, such information shall not be provided to EDC employees or representatives other than on a need-to-know basis or to anyone outside EDC who is not authorized or legally entitled to receive it.

Actuarial Gains and Losses – Changes in the value of the accrued benefit obligation and the plan assets resulting from actual results differing from those assumed or changes in an actuarial assumption.

Actuarial Valuation (re: Employee Benefits Plan) – An assessment of the financial status of a benefit plan performed by an independent actuary. It includes the valuation of any plan assets and the accrued benefit obligation using estimates of future events that will affect the costs and obligation for employee future benefits.

Basis Point – One one-hundredth of a percentage point.

Contingent Liability – Potential debt which may become an actual financial obligation if certain events occur or fail to occur. Contingent liability is also referred to as insurance policies and guarantees outstanding.

Credit Risk – Credit risk is the possibility that a loss may be incurred if a counterparty fails to meet its financial commitments.

Efficiency Ratio – Administrative expenses expressed as a percentage of operating income.

Financial Sustainability Ratio – Adjusted operating income (operating income net of administrative expenses and debt relief) as a percentage of the year's average capital and allowances.

Foreign Exchange Risk – Foreign exchange risk is the possibility that a loss may result from exchange rate movements.

Gross Loans Receivable – Principal amounts outstanding, including any non-accrued capitalized interest, under existing loan agreements.

Hedge – A risk management practice used to manage interest rate or foreign exchange exposures arising from the normal course of business operations.

Impaired Loans – Loans that no longer have reasonable assurance of collection of interest and principal.

Interest Rate Risk – Interest rate risk is the potential impact on the Corporation due to changes in interest rates.

LIBOR – London Inter-Bank Offered Rate – The interest rate at which banks in London are prepared to lend funds to first-class banks.

Liquidity Risk – Liquidity risk is the chance that funds will not be available to meet the Corporation's obligations.

Market Risk – Market risk is the likelihood of a loss to the Corporation as a result of possible movements in interest and foreign exchange rates.

Net Interest Income – The difference between the interest earned on assets and interest expense on borrowings.

Net Margin – Net interest income expressed as a percentage of average assets employed.

Net Operating Income – Operating income net of administrative expenses.

Off-Balance Sheet Financial Instrument – An asset or liability that is not recorded on the balance sheet, but has the potential to impact cash flows in the future if a contingent event occurs.

Operating Income – Net income excluding the provision for credit losses and administrative expenses.

Operational Risk – Operational risk is the potential loss that may result from human error, internal control weaknesses and system deficiencies.

Projected Benefit Method Pro Rated on Services – An actuarial valuation method in which an equal portion of the total estimated future benefit is attributed to each year of service.

Projected Benefit Obligation – The actuarial present value of benefits attributed to employee services rendered to a particular date.

Return on Equity – Net income expressed as a percentage of shareholder's equity.

Undisbursed Loan Commitments – A contractual amount under an existing loan agreement that has yet to be advanced to the borrower.

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